The 10th INTERNATIONAL

FUJAIRAH BUNKERING & FUEL OIL FORUM

27 – 29 MARCH 2017

In Conjunction with the Fujairah Bunkering Week

25 - 29 March 2017

FUJAIRAH BUNKERING & FUEL OIL FORUM
FUJCON

Organised by

CONFERENCE CONNECTION

Hosted by

GOVERNMENT OF FUJAIRAH

Port of Fujairah

Held Under the Patronage of His Highness Sheikh Hamad Bin Mohammed Al Sharqi, Member of the UAE Supreme Council & Ruler of Fujairah

<u>Press Clipping</u>

FUJCON 2017 opening ceremony. ©Conference Connections/Port of Fujairah

FUJCON 2017 PULLS IN THE CROWDS

Nigel Draffin reports from the bi-annual conference in one of the world's main bunkering hubs

The 10th international Fujairah bunkering & fuel oil forum (FUJCON 2017), organised by Conference Connection and hosted by the Fujairah Government and Port of Fujairah at the end of March, was attended by more than 250 delegates from over 50 countries.

IBIA was well represented by many of our members with Board member Nigel Draffin and Board member elect Martin Laue Brodersen present as speakers in two of the panel sessions, and a number of IBIA members participated on panels. Fujairah is an important venue for the bunker industry. In 2016 there were 14,900 vessel calls in Fujairah anchorage of which 81% were oil related. In 1994 the local storage was only 550,000 m3; it has now reached 900,000 m3 with another 1 million m3 to come on stream by 2019.

Dr Mohammed Al Kindi, in the opening address, told us that Fujairah's strategy is to attract inward investment to grow the provision of services in the port with relation to oil processing storage and trading. He also said they are seeking to create a price index for oil products at Fujairah.

Dr Fareidun Fesharaki gave the first Keynote address. He covered the state of the oil market, the state of the LNG market and the prospects for the future.

On the oil market he said the inventory is increasing, which analysts expected but speculators did not, hence prices are soft. Demand growth is double that of 2013, driven by gasoline and low prices. He expects a $50 – $60 per barrel crude market, predicting prices will recover to $60+ in the second half of the year. Refinery capacity is slipping towards deficit, meaning good margins for refiners.

When it comes to LNG as a fuel for ships, buyers and sellers have a mismatch on their view on contract length. Although LNG moves towards commoditisation, the LNG bunker market is in chaos. It will continue until we see balance in 2023, according to Fesharaki. He sees the LNG market pricing changing considerably as 2020 approaches. Toyota says by 2020 they want cars shipped in LNG fuelled ships. Ship owners don't like scrubbers as they see more regulation coming on CO_2. No one has a clear plan. There is no way to make an instant transition to the global cap, we will need a variety of solutions. Fesharaki believes LNG has the real prospect of fitting the bill.

Christopher Bake of Vitol gave an address on the state of the fuel oil industry. He told us the market rallied because they expected a stock draw but demand is lacklustre.

The demand growth is in the Middle East, while the Atlantic basin has shrunk. Bunker growth is concentrated in the Middle East and Asia, whilst in Europe and North America the bunker demand has shrunk. India is still burning more and more coal for power.

Globally, there is 600,000 bbl/day of additional hydrocracking capacity planned to be installed by 2020 that will convert fuel oil into cleaner fuels.

Michael Cleveland, Honeywell UOP gave an address on the state of refining technology. Honeywell sees the 0.50% sulphur product price range as the important decision point for refiners. Why not convert residue to gasoline/diesel and use what's left as the marine fuel, he said. Citing the US example, where heavy refinery conversion is the norm, he pointed out that 80% of residual fuel oil demand is for bunkers. That said, he suggested that there is no single right answer.

The keynote speeches were followed by the seven subject panel sessions where discussions ranged freely across a number of topics, but there were some threads which ran through all of them.

The fuel session panellists, from left to right: John Gilligan, Nigel Draffin, Dr Salem Khali, Siavash Alishahpour, Usman Muhammad, Vivek Vijayaraghavan and Ara Barsamian. ©Conference Connections/Port of Fujairah

The question of 2020 and the global cap was almost immediately confronted. Discussion on this topic ranged from the philosophical (Why did they choose 2020?) to the straight forward financial (What fuel price differential will prompt you to install scrubbers?) calling off at various points on the way (Will there be enough fuel – really? How many will choose LNG? Will all ports have the full range of products? How will the cap be enforced and by whom? Will we see more quality problems?). All of the questions were real and the answers given were considered and debated. In summary, the dominant opinion was that although the 2020 decision was driven by political rather than practical considerations, we have to deal with what we have. We were told there will be a range of solutions including traditional distillates, scrubbing of high sulphur fuel, new blends of residue and cutter stocks to produce 0.50% sulphur products, but that some owners may choose to carry on as they are now (in other words, not comply).

The scrubber choice and the LNG choice have the heaviest financial burden and unfortunately the financial circumstances for much of the ship owning sectors are not conducive to consider the investment of $2.5 to $5 million for a scrubber retrofit or the additional capital cost of building LNG-fuelled new ships. We did get to hear from owners who had followed both routes with comments from Red Sea, Torm, UASC and Pacific Basin.
On the scrubber decision, Pacific Basin said that it was heavily influenced by ship age. For their fleet, vessels below 10 years were candidates for retrofit whilst those over 10 years would use conventional 0.50% fuels. The company needs a price differential of more than $175 per tonne and will not delay decisions beyond 2018. Torm has concerns about committing to the expenditure (their pay back point is a $200 per tonne differential) only to find that in 2020 the rules change and there are exemptions or approved ways to delay installation without penalty. Torm was ready to change but did not want to be put in an uncompetitive position and had picked up rumours of delayed introduction of the cap. Red Sea Marine said their trigger was a two year payback for scrubbing. UASC explained their rationale behind the decision to build the gas-ready large new containerships.

The ship operators generally felt that the IMO decision had not been thought though and should have been deferred to 2025. Several panel sessions looked at this issue and whilst it was explained and qualified by the IBIA presentation it was William Tan from Myabi Industries who pressed home the point that ship owners and suppliers had known about the 0.50% cap since the 2008 revision of MARPOL Annex VI, so to claim that there was not enough time to prepare seemed unreasonable. The only thing on which all contributors agreed was that the prolonged shipping downturn across many sectors has made investment in new technology very difficult to achieve.

A second topic which aroused the interest of delegates was the discussion of legal issues, especially with regard to failures like that of OW and Hanjin. This has been discussed before at many venues but the market still seeks clarity and solutions. The panellists covered the need for agreement prior to establishing the contract on the methods available to resolve disputes.

The BIMCO contract clause allows complete freedom for the contracting parties to agree law and jurisdiction and to state their choices for arbitration but the BIMCO clause gives a fall-back position of English law and LMAA arbitration unless an alternative has been selected. There was some discussion over the position of ship owners and suppliers with regard to a fuel sale via a trader who does not pay his physical. It seems that the situation in UAE law is out of step with the solutions found in other jurisdictions and may expose the buyer to claims from the physical supplier because of provisions in UAE law with regard to the master signing the BDN. Delegates from the floor suggested that even when there was a BIMCO Bunker Non-lien clause, suppliers were not willing to surrender their right to a maritime lien causing many difficulties for time charterers. Grant Hunter of BIMCO indicated that the problem was known and understood but that the purpose of the clause had been to show due diligence by the vessel owner at the time of entering a time charter contract. Richard Briggs of Hadef & Partners suggested firstly that disputing parties should consider the use of the Emirates Arbitration Centre, especially for claims up to $270,000 and then proposed that there needs to be a convention on Bunker Contracts.

The session on the local trading infrastructure produced a lot of information on the further development of Fujairah as an oil trading hub and emphasised that there is more to this than just the steel and concrete.

The initiative to make public the stock levels in the terminal and the collaborative work with S&P Global Platts to generate a fuel price index for Fujairah is creating opportunities to use an index linked to what is happening in Fujairah rather than using MOPAG, which is largely based on the levels in Singapore. There was a note of caution from Dubai Mercantile Exchange that clients still want to use MOPAG and it will take years to build the confidence for them to transition to using the Fujairah barge quote.

The session on LNG together with comments on LNG from other sessions showed the strong feelings that exist. Ara Barsamian said "LNG – it is dead, dead, dead". No one else was quite so negative and the comments from UASC and the pitch from Shell showed that LNG is serious stuff with every chance of reaching a potential of 30% of the marine fuel demand. UASC explained that for the company's 2015 container ship order, the decision taken before building was to incorporate a heavy technical investment to minimise the eventual cost of conversion from LNG-ready to actually burning gas.

The fuel tank size is from 6,500 to 8,000 cubic metre for LNG storage. The final decision will be economic but UASC are already in detailed discussions on tank design and looking at the likely LNG supply hubs.

The source of supply will be based on close cooperation with a seller in a partnership rather than the current "spot" model. The Shell representative, Lauran Wetemans, said there will be six LNG barges in service world-wide by the end of 2017.

The port of Fujairah intends to support LNG bunkering using a similar concept to Jebel Ali: floating storage and regasification from a vessel moored in the port that can also provide STS services to smaller LNG carriers and LNG barges. The port expects that some remote thermal power plant will opt for LNG and that they will be a customer for small scale LNG transfer by sea. Having worked with LNG since 1974 and been on ships that started burning it in 1964, I am not sure why so many people find it so frightening.

It is there if the economics make sense. There was a welcome reception in the conference venue, the Al Diar Siji hotel and the next evening we went to the dinner by the pool at the Fujairah Hilton. The visit to the Hilton was bittersweet as it was its last major function before the hotel will close and be demolished. We looked around for souvenirs of so many happy visits to Fujairah from the days when it was the only hotel in town. The dinner was a jolly affair with local dancing, followed by a move 'en mass' to the "Fez" bar next door.

The overall event was interesting, informative and gave plenty of opportunity for networking. IBIA was there both on the podium and in the auditorium, our voice was heard.

Nigel Draffin represented IBIA as a speaker at FUJCON 2017. ©Conference Connections/Port of Fujairah