



IMPACT OF IMO 2020 ON THE MARINE ENERGY MARKET

Hormuz Straits Partnership

8 October 2019

Perspective from Fujairah

How does the market adjust?

- New maritime fuel regulation, IMO 2020 mandates that commercial vessels use fuel that contains a maximum sulfur content of 0.5%, far less than the current allowed level of 3.5%.
- This is a global reality and expected to be implemented in all major ports.

The problem is not price – it is structural adjustment

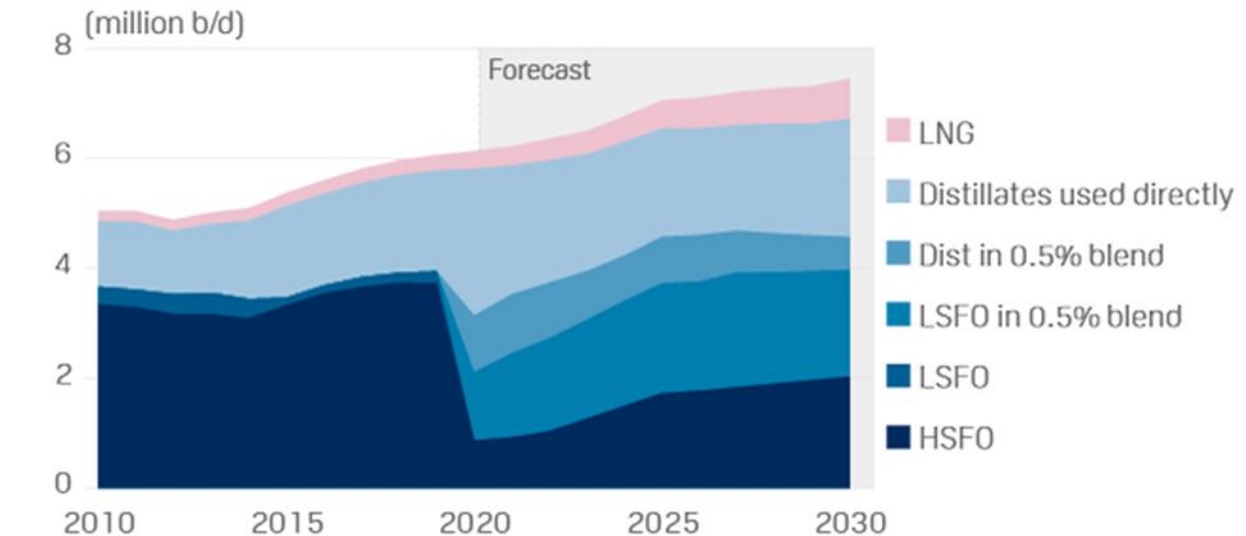
- Can the traditional bunker suppliers get access to the product coming out of the refineries.
- Access to this LSFO is relatively limited – compared to the high Sulphur products. It is coming out of refineries, top tier players.
- The barrier is the Letter of Credit.
- A lot of the high Sulphur trade was done on open Credit. Now winners will have access to banking facilities which are relatively scarce. Big global banks are reserving trade finance for their best clients.

Demand is shifting

New opportunities & uncertainties

- 3 million b/d of HSFO will have to be replaced. As a result, LSFO, marine gasoil and blended distillates will all play important roles in the bunker fuel mix in 2020 and onward.
- Once the initial VLSFO supply is contracted or bought, demand for MGO will grow.
- Purchasers of ultra low sulfur diesel, which include trucking carriers and, because of fuel surcharges, shippers, are concerned that the demand for ultra low sulfur marine fuels will tighten refinery capacity and drive up the price of diesel.

GLOBAL BUNKER FUEL DEMAND



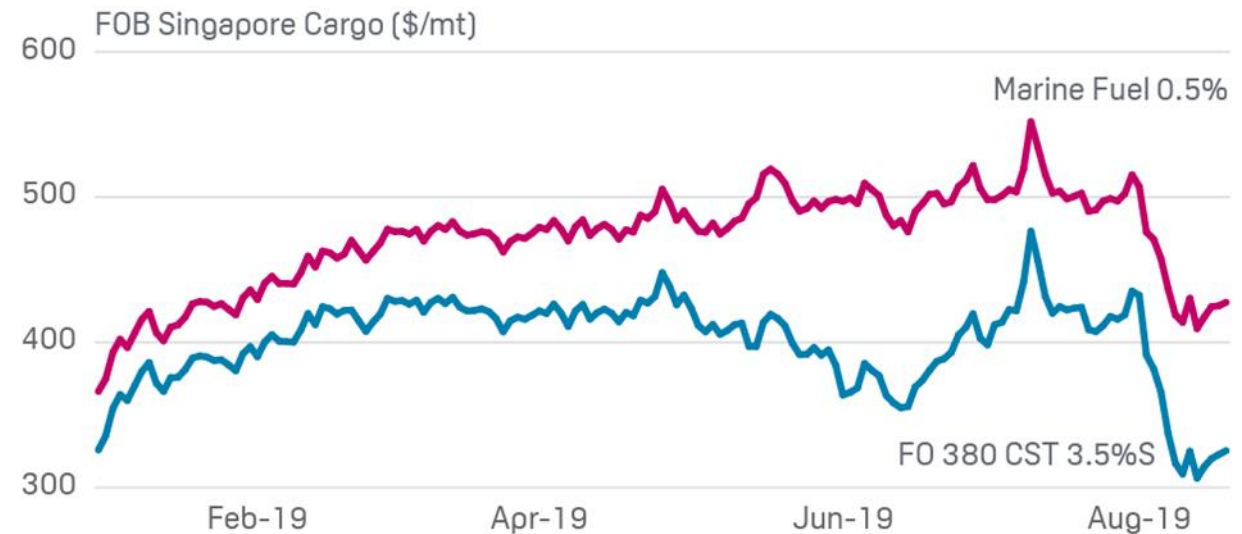
Source: S&P Platts Analytics

Divergence is evolving

Price is a factor

- LSFO is now the standard and trades at a premium to HSFO.
- In Q1 2020 there will be a lot of volatility, but by the second quarter the gasoil demand would be established.
- The MGO and HSFO price spread expected to average over \$250 per tonne over the next five years, but now it is just over \$100.
- VLSFO expected to average \$50-\$70 per tonne below MGO.
- The Investment case for scrubbers depends on your access to finance, existing vessels' condition, and return expectation.

HIGH AND LOW SULFUR FUEL PRICES DIVERGE



Source: S&P Global Platts

Specialized infrastructure needed

Products must be segregated

- Access to storage tanks, blending terminals is important
- Even vessels must be cleaned, because the residual sludge will mix poorly with new fuel and cause instability
- Sulphur is not the only point – what is really important is effect on the **performance** of the vessel or there will be disputes about between vessel owners and fuel suppliers
- ISO 8217 standard can be applied for the new fuels, with technical advice for kinematic viscosity, cold flow properties, stability and ignition characteristics.





THANK YOU

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