

Precious Relief Ahead of IMO 2020



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A **WORLD FIRST IS SENDING RIPPLES** of relief through an unnerved global shipping and bunkering market. UED completed the largest ever single shipment of low sulfur fuel oil (LSFO) on the 14 May – while celebrating just its third year of operations. So, why does this earn a spot in the history books?

154,411 tons
The size of the cargo that heralds a critical step in improving price discovery of LSFO – worldwide.

Because it marks the largest such shipment ahead of the biggest change in the shipping industry for more than a century: the International Maritime Organization's (IMO) sulfur limit of 0.5% from 3.5%, from January 1, 2020. The shipment does not just see UED leapfrog to the top of the hierarchy of competitiveness. In the vacuum of guesswork

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over how to comply to IMO 2020, it also represents a call of reassurance: ‘supply is there if you want it!’

The 154,411 ton cargo, heading from the world's second largest bunkering hub of the UAE emirate Fujairah to the world's largest bunkering hub of Singapore, heralds a critical step in improving price discovery of LSFO, especially in an IMO 2020 landscape. Fuel costs already represent more than 50% of total operating expenses, and IMO 2020 poses an increase too significant for some carriers to absorb and stay operational, according to IHS Markit and JOC.com. The greater the clarity over the price implications, the better. This is integral to spurring investors' confidence and appetite to support the necessary infrastructure developments in the value chain. Refiners, storage operators, ports, shipping, traders and others are all rapidly reviewing their books to make fuel demand match infrastructure. The same applies to elevating the preference of LSFO as a compliance method against the other options: scrubbers, liquified natural gas (LNG) bunkering.

GLOBAL REACH

IMO 2020 is a global event that offers a myriad of opportunities for the UAE and wider Gulf – if properly utilized. We are in the process of debottlenecking the units to increase crude flexibility and throughput. This will be a game changer in the lead up to the 1 January, when the importance of quality, sufficient volumes and speedy delivery of LSFO will reverberate worldwide.

As a global marine fuels provider located in Dubai and Fujairah, UED is also leveraging

its golden location at the crux of global trade routes, including China's One Belt, One Road Initiative (OBOR). The modern take on the ancient Silk Road, first trodden more than two millennia ago, links China with 65 countries in Asia, North Africa and Europe. This encompasses 16 nations in the Middle East – 25% of the total. Therein lies an opportunity for UED (and Fujairah) to reinforce a maritime channel of commodities and trade with IMO 2020 compliant fuel. Ignore this opportunity at your peril; Morgan Stanley estimates that a total spend of the OBOR could reach \$1.3 trillion worldwide by 2027.

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95%
Compliance will likely settle around 90% or 95% in the initial years, 2020 Marine Energy said at a S&P Global Platts conference in July. This is well above some industry estimates last year that pointed to compliance of 70%-80%.

77%
Successful implementation of IMO 2020 will reduce SOx emissions from ships worldwide by more than two thirds between 2020-2025, the IMO said.

Albeit important, OBOR is just one part of UED's global reach. Since its first cargo in March 2017, the company now trades with 200 counterparties worldwide. Alliances in the Middle East, Asia, Europe, the US and others will continue to benefit from plans to expand crude and petroleum product facilities with state-of-the-art infrastructure. So far, UED owns and operates two crude processing units in Fujairah, with Uniper Energy's crude units annually producing more than 3m tons of ultra-low-sulfur fuel oil (ULSFO) for the marine market. Having 3m barrels of storage in three of the world's largest bunkering hubs – Fujairah, Europe's port of Amsterdam, Rotterdam, Antwerp (ARA) and Singapore – also spurs the fluidity and ease of global trade, underpinning growth. Amid the uncertainty of IMO 2020, one thing is clear: ramping up LSFO supply is a safe bet. UED's world record is just the first step; momentum must accelerate. The bigger and more frequent LSFO shipments become, the calmer the waters of compliance will be in six months. Tick tick. ■