MORE QUESTIONS THAN ANSWERS?

SURVEYING THE KEY BUNKER TRENDS

INSIDE:

ETHICS AND TRANSPARENCY TRAINING FOR NEW FUELS
INTERVIEW: HARTREE MARINE
MARKET FOCUS: NORWAY
In recent years there has been a lot of talk of ‘transparency’ in the marine fuel market. It seems to me that people in our industry fall into two broad camps on this issue: you are either vehemently for it, or against it. Let’s analyse this a little and try to understand the drivers of transparency.

Since the dawn of commerce people have profited from holding or controlling access to an asset that someone else wants or needs. This asset can take many forms – it could be a tangible good, intellectual property or simply information. Generally speaking, when there is an asymmetry of information, combined with a supplier and a consumer of a good, there is poor transparency and an opportunity to profit. If we apply this simple model to our own industry, the consumers are of course the shipping companies, and the suppliers are refineries and/or physical suppliers. With regards to asymmetry of information and transparency, this is something that has changed quite a lot over the last two decades.

Before the dawn of the internet, a bunker broker could happily profit from this asymmetry of information – he or she knew which fuel was available where, and he or she could also inform the suppliers which vessels were coming into their ports for refuelling. There was no financial barrier to entry to this valuable function – a function that profited from providing transparency. However, as bunker prices got more expensive, oil majors lost their focus on the marine fuel market and traders stepped in. The emergence of traders along with the communications revolution fuelled by the internet created a situation where traders could effectively beat the value of the broker because as the supply chain of information for shipping companies became more democratised, they could trump the value provided by brokers by offering quasi-unsecured credit for a valuable commodity. The buyers of marine fuels were happy to sacrifice some transparency if they could get the fuel they needed on satisfactory credit terms. But is this now changing?

Before we can answer that question, I think we need to consider two tectonic shifts that are happening in the shipping industry – decarbonisation and digitisation. The topic of digitisation has been around for a long time, and shipping has been slow to embrace it, possibly because digitisation is, in a way, optional. On the other hand, decarbonisation is mandatory – shipping is being dragged into the global environmental agenda whether it likes it or not. Despite the differences around shipping’s choices to get involved in each of these topics, I think we are seeing a situation where both elements go hand in hand. As it wakes up to the need to manage its business better, shipping is starting to organise itself around digitisation, and this feeds nicely into its efforts to decarbonise. An excellent example of this is The Signal Ocean Platform. By tracking all tankers and bulkers above 5,000 GRT and fusing it with ship broker data in real time it enables shipping companies to make better commercial decisions. It also includes bunker consumption curves for all vessels and accurately
models carbon output over different voyages, so its users can benchmark their commercial operations for environmental factors.

Looking at the marine fuels supply chain dispassionately we could observe that marine fuels are an expensive commodity that generates a vast amount of carbon. This combined issue of cost and carbon is forcing the board rooms of shipping companies to look at bunkers more closely, and digitisation is enabling them to do so. This does place some obvious pressure on transparency – this will concern some companies that might feel that they can’t justify the margins that they charge if they are ever revealed. However, transparency in our business doesn’t just involve price, it also involves many other factors including quality, origination, efficiency, etc. To take another example from the Signal Ocean Platform on this issue: It was built to help shipping companies make better commercial and operational decisions by aggregating data in a way that is useful for all industry stakeholders – whether they are owners, commercial operators, brokers, commodity traders or oil majors. The point here is that it has genuinely helped the shipping industry to evolve without disrupting or disintermediating anyone.

During my short time within The Signal Group, I have spent a great deal of time examining the bunker supply chain in close detail. This has involved me interviewing fleet managers, bunker buyers and vessel operators from both internal and external fleets. I have also spoken at length with traders, brokers and physical suppliers, in addition to interviewing senior industry stakeholders. Amongst other things, I have focused on the issue of transparency. What I have learned is that, yes, transparency has become more important for the reasons already mentioned, but it has also been made clear to me that companies are prepared to pay for anything that provides genuine value. A good example of this is the bunker trader. Whilst some people might complain about poor price discovery for fuel in certain locations, I don’t think we can ignore that fact that shipping companies are getting a good deal overall – they are getting the fuel they need on credit for a tiny credit premium. I think that shipping companies know this - not once in my career has a client asked me how much money I am making on a deal. For this reason, I think that some current industry stakeholders can rest a little easier as the changes driven by decarbonisation and digitisation occur – but only if they are confident in the value they provide to their clients.

The first step that the shipping industry will take towards decarbonisation involves operating the assets they have more efficiently – this will drive a great deal of transparency as we go forward and I feel that this is what is driving most of the discussion around transparency today. Indeed, this is already happening – shipping companies are making much better use of data relating to things like daily noon reports (bunkers Remaining On Board) and weather routing, etc. However, these ships can’t operate without a bunker industry that can provide fuel at scale and on attractive credit terms. This is something our industry has been very good at providing for several decades and I think we can take some comfort from this whilst the drive for transparency continues. However, we can’t afford to rest on our laurels as change occurs. Many will say that ‘software is eating the world’ and I don’t think any single stakeholder in the marine fuels supply chain can swim against this tide. What we can do however is focus on providing value to our clients and adapt to change as it occurs.

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