

IMO



Who's in the Driving Seat?

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THE REAL ELEPHANT IN THE ROOM is how will the world handle the International Maritime Organization's (IMO) 2020 ruling on sulfur regulation. This is going to drive the dynamics of the oil markets for the next 18 months, so being able to navigate that is going to be paramount to survival and profitability. One question amongst many – how will marine gasoil and heavy fuel oil fare? – will by itself keep many analysts awake at night.

Every party, whether it be shippers, refiners, operators and others, all think the other is taking care of the problem, but the reality is there has been no agreement around the table yet. There is a lack of clarity on how to respond. The market needs certainty. We missed the wave of investing in putting scrubbers on ships.

NOW it comes down to refiners, port authorities and blenders to give clarity on enforcement and the requirements in different areas. Some players are already providing alternatives to destroying high sulfur fuel oil (HSFO) and to changing refinery slates as soon as everything is defined clearly. The industry can react when the conditions are there, but the message

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0.5%

The new permissible sulfur limit in bunker fuels as per an IMO regulation that kicks in on 1 January 2020, down from the current 3.5%.

13

The number of months shippers, refiners, operators and port authorities have to comply, as of November 2018.

2025

There was a proposal to delay the date of the 0.5% regulation by a further five years, but this is completely off the table now.

\$155.1 bn

Expected value of global bunker fuel market by 2024 – a CAGR of slightly above 5.5% between 2018 and 2024.

must be coherent on how to, for example, extract waivers, equal standards between ports and so on.

ANOTHER critical question to answer: what will be done with the surplus HSFO as more developing economies go into gas?

Responsiveness and flexibility will be key to any operator. The ability to manipulate a barrel quickly – to blend it, upgrade it, convert it – and enable incremental refining margins to be achieved is paramount during this backwardation period.

But perhaps the more challenging question is whether terminal operators should build clean or dirty storage tanks. The answer depends on your point of view regarding where fuel oil is going to go in 2020, when the sulfur limit falls to 0.5%. Are fuel oil inventories going to balloon due to insufficient coking capacity and will fuel oil have a role in the bunker pool?

If the IMO regulations are effective in the bunker market, then we will need an alternative to HSFO – and that will be gasoil. In this scenario, marine gasoil will have to rise to help meet latent 2020 demand and fuel oil supply will also rise due to lack of natural demand from the market. There will be an inflection point and the storage requirement will have to change as a result. This will play out over the next 12 months.

ONE thing is clear though: tolerance for not abiding by the IMO's ruling will be very low by the likes of the United Nations International Convention for the Prevention of Pollution from Ships (MARPOL) and other authorities. The adoption schedule for IMO has become acute with talk of drones and satellite enforcement. Fines for non-compliance may not be very high, but reputational damage will be. ■