IMO 2020 15 DAYS AND COUNTING...

FEATURED COMMENTATORS:
- **Mike Muller, Director of Oil Business Development and Head of Trading, VITOL Asia**
- **Keith Martin, CEO, Uniper Global Commodities and CCO, Uniper SE**
- **Magid Shenouda, Deputy CEO and Global Head of Trading, Mercuria Energy Group**
- **Dave Ernsberger, Global Head of Commodities Pricing, S&P Global Platts**
- **Adi Imsirovic, Head of Oil, Gazprom Marketing and Trading**

***Moderator:* Sean Evers, Managing Partner, Gulf Intelligence**

***Moderator:** Which sector is better prepared for IMO 2020 – shippers, refineries or ports?*

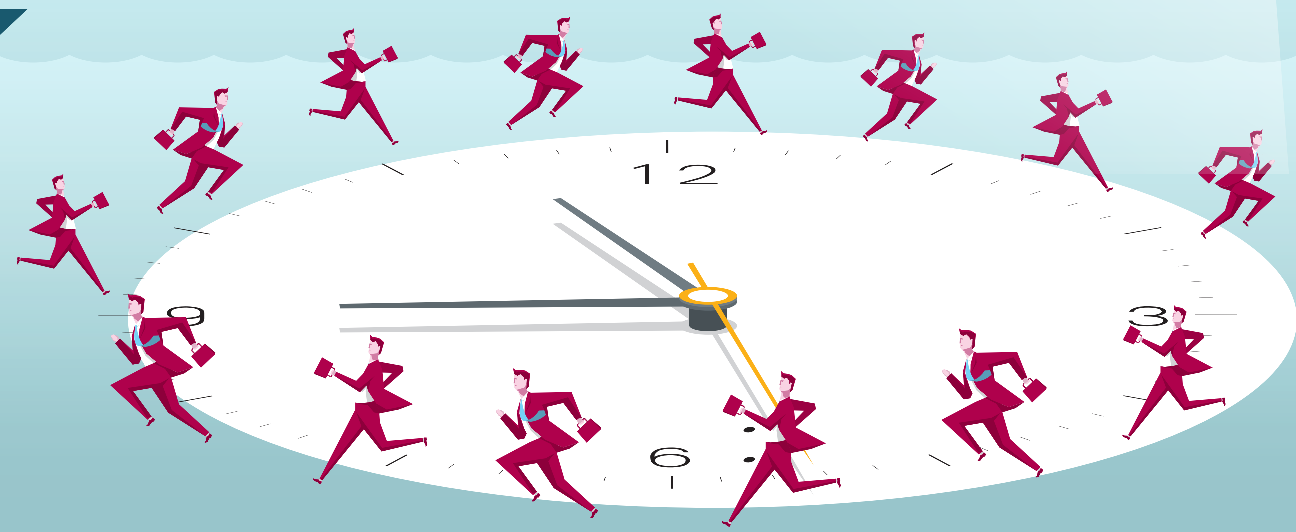
Mike Muller: There is a general expectation that stakeholders may not be ready to immediately comply. I would say it may be easier for the ports to be prepared because they just need to enforce rules, whereas others must invest in structural changes.

***Moderator:** Many say the ports have a responsibility for the communication of clarity and procedure and that preparation could have been done better.*

Mike Muller: It depends on the port. But for the most part, those that have engaged have been very clear in towing the line and threatening enforcement and consequences on stakeholders who are caught not complying. The biggest concern is consistency of enforcement globally, but you really do not want to be boycotted by concerned investors these days. They represent a large percentage of the share price and are consistently talking about sustainable growth and accountability to the environment. It's an extremely large issue and if you listen to the top people at the IMO, they are singing the exact same tune and already looking to the next step, encouraging alternative fuels, such as LNG.

> **"Accountability is an extremely large issue and, if you listen to the top people at the IMO, they are singing the exact same tune and already encouraging alternative fuels, like LNG."**

Magid Shenouda: Refineries are most prepared. They have been for two years, with the exception of the Russian refinery sector maybe. Globally, in the last five months, we've seen heavy and medium sweet crudes trading at large premiums to Brent, contrary to what they have done historically. So, refineries have been buying those products to get ready. Product can always be sourced. The real question is how is it going to affect feedstocks, how are people going to switch feedstocks and what impact will that have?



Dave Ernsberger: Most people are prepared. We are talking about a massive group of entities with a huge number of vessels and assets. More than 2,400 scrubbers have been, or will be, installed by the end of this year and another 3,000 by the end of 2020. The only constituency that is absolutely 100% exposed to this new rule is the shipping community. What I hear from shippers is that everybody's switched the lights on from mid-October to go to LSFO. They've already put the enquiries into the ports. Most people think the industry's ready and we see that reflected in prices as well.

Moderator: *Will there be enough LSFO supply to meet demand in the first half of 2020?*

Keith Martin: Great efforts have been made and storage is full. Our unit in Fujairah is producing today and we've got a number of locations with storage and this is being echoed by other players. We see ships full, laying in the harbour waiting for the change. The refineries are all ready to switch and have been prepared as well, so there will be enough product available. That is not a concern. What everybody's interested in is what will be the initial teething problems in terms of system changes. This will only work if applied globally and we have seen government commitment at a high level, which will put on a lot of pressure to make this happen. Those that don't will be castigated by shareholders.

> **"More than 2,400 scrubbers have been, or will be, installed by the end of this year and another 3,000 by the end of 2020. The only constituency that is absolutely 100% exposed to this new rule is the shipping community."**

Moderator: *With plenty of supply, does the big opportunity of margin disappear?*

Keith Martin: I don't think so. There is stock at the moment to reassure concerns around readiness in the first half of 2020. But the market will level out, demand will increase, we'll get over the teething problems and then we'll have a new dynamic in terms of price levels and margins will be reasonable.

Moderator: *Where is the pricing spread of LSFO and high sulfur fuel oil (HSFO) today and where is it headed?*

Mike Muller: The front of the market price for LSFO is in the low $300s/t. There are going to be very different flavors of ultra LSFO…high viscosity, low viscosity, directly from the refinery, blended by somebody you trust or don't trust, etc.

Magid Shenouda: The market is currently trading at $276/t. To get to $300/t, you only need another $25/t, which is going to happen because the HSFO market is going to be pushed down, as well as other factors.

Adi Imsirovic: I would be a bit more conservative. There will be very good demand for ultra LSFO, given where marine gas oil prices are, so somewhere between $200/t-$300/t.

Moderator: *What is the big picture outlook vis-à-vis the first half of next year? How do you see IMO 2020 playing out?*

Dave Ernsberger: It's important to keep these things in perspective. The bunker fuel market is 3.5mn b/d in some shape or form. The global oil markets have managed much bigger changes than this; many of us have seen shifts from diesel, from HSFO to ultra LSFO, gasoline to cleaner standards all around the world. The bunker market will be roiled a little from November and probably through to February next year with technical challenges, such as tanks changing and ships loading new fuels. But the fundamental challenge is the fuel itself and it appears that the required investments have been made on that front in LSFO production through to blending and new scrubbers. We are not looking at a crisis – this is more Y2K than it is anything massive.

Moderator: *As prices are on a bearish trend, will OPEC need to make much deeper supply cuts at its December meeting to support prices at where they are today?*

Dave Ernsberger: OPEC will definitely have to make a bigger cut if it wants to get to $70/bl again. We're reaching the end of the road on OPEC's output cut policy. What the group faces right now is diminishing growth in oil demand, which is being very weighed upon by uncertainty in the global economy and in the move towards sustainable energy. One of the great triggers that can accelerate the further erosion of demand growth is a high oil price. So, if we push to get prices higher in an environment where there could be another shock, that could become a little self-defeating medium to long-term. There are voices in OPEC that are making this argument today.

> **"OPEC will definitely have to make a bigger cut if it wants to get to $70/bl again. We're reaching the end of the road on OPEC's output cut policy."**

Moderator: *OPEC and non-OPEC recently signed a charter of cooperation for a longer-term partnership. Do you think there's appetite in Russia to sustain the partnership and make these kinds of commitments?*

Adi Imsirovic: There are so many variables involved. First of all, IMO should have given the market a bit of a kick and it didn't. Secondly, the fact that there has been no geopolitical risk impact has also been a huge surprise. Is the market complacent? I am not sure. Thirdly, it's very hard to say what President Trump is going to tweet next and that is really influencing fundamentals. Trade drives the world economy and at the moment, Asia is being really badly hit. Singapore's economy is doing extremely poorly. With demand growth mainly coming from Asia, this does not bode well for the global economy. But oil producers will still make sure that prices are stable and Saudi Arabia has done a fantastic job so far in ensuring that.

**Edited transcript*

SNAPSHOT:
Price Impact of Drone Attacks on Saudi's Oil Market?

Moderator: In the aftermath of the attacks on Saudi oil facilities in September, there has been a lot of talk about the return of a geopolitical premium to the oil price, but that has not really materialized. Could it still do so?

Keith Martin: The shale oil revolution in the US and the amount of supply that's available in the market has brought in a calming factor. Former US President Bush said recently that if that same attack had happened ten years earlier, the price probably would have been up $40/bl and would have been far more sustained and damaging. But the fact that there's such healthy supply means that markets are far more prepared to cope with shocks than ever before, so I don't see a premium sustained for any serious period of time.

Moderator: For many years, there's been a sense that the sector is a little nonchalant about the risk here to supply. Is there geopolitical risk?

Mike Muller: There is. Is it due to the fact that Venezuela, Libya and Iran production have been impacted? Yes, that's in there somewhere. But what the recent attack in Saudi has done is take away spare infrastructure, which the kingdom put in place in order to have the ability to cope with such challenges. So, we are eating away at those layers of assurance.

Magid Shenouda: Prior to the attack, the market was really short and would have gone close to $55/bl for Brent. We were trending down anyway because of President Trump's tweets and the impact of the trade war on demand. At the same time, if you look at the global economy, it's still sick and has never really recovered since the 2008 financial crisis. We keep printing money and there is too much cheap cash. The trading community is short and the fact that there's a plethora of producers, mostly in the US, waiting for spikes so that they can sell into it, says something. Private equity markets have a lot of money scoping oil and gas and praying for higher prices so that they can hedge.

**Edited transcript*