

2009 market outlook: shaping up for change

Bunkerworld asked Adrian Tolson, VP Sales & Marketing, Chemoil, to discuss the challenges of the year ahead.

The world economy is clearly in upheaval. As the global financial market floundered in 2008 and now struggles to recover throughout 2009, uncertainty is the only certainty that lies ahead. And, as part of this, businesses in our sector need to be prepared to make major changes, swiftly but pragmatically.

With shipping being so closely tied to the performance of the global economy, the marine industry has been visibly hit by slowing global trade. It has crippled some smaller shipping companies and even dealt a heavy blow to some of the major operators. Inevitably, this will impact upon suppliers as we can expect to see a short-term decline in volumes until the economy recovers. At this point, those with diversified customer bases and flexible sales operations will be better positioned to ride out the turbulence.

Global credit

Credit issues have escalated to the top of everyone's agendas since the global credit crunch hit a crescendo, with countries, not just industries and companies, collapsing. As the marine fuels market relies so heavily on open credit as a basis of trading this issue is paramount. For ship operators, with bunkers still accounting for a signifi-

marine industry has to move swiftly to understand and closely manage counterparty risks, with commitment from both suppliers and customers to facilitate responsible, open and responsive relationships. In troubling times, especially when few believe we have seen the bottom of this recession cycle, a cautious and conservative approach to risk needs to be taken.

The credit squeeze might see business moving towards the bigger players in both bunkering and shipping. For Chemoil, our financial risks have been significantly reduced with healthy credit lines and utilisation of our banking facilities at about 30-40%, and working capital requirements falling due to dropping prices. This, combined with our risk management capabilities has enabled us to ensure continuity of service and has allowed us to progress with our carefully calculated expansion plans.

Consolidation within the industry is still likely. It is possible that we could see a shake out of some smaller players and the jury is still out on whether we will see the oil majors retreat further from the marine sector and focus on their core offerings. But, from an industry perspective, we should remain optimistic that there could be positive outcomes. Remaining suppliers will have to dedicate

an upturn will occur, it is just a question of how long it will take.

Strategy

Chemoil's three-pronged strategy of expanding market presence, investing in operational infrastructure, and developing our product portfolio has positioned us well in weathering cyclical downturns and upturns, and more so during these testing times. The benefits were clearly demonstrated in our full-year financial results, which revealed a 55% increase in profits and a rise in volumes to 16.5 million metric tons for the year. Even with the market downturn in the fourth quarter, our volumes still rose by nearly 23%.

Business in Asia has been significantly boosted following the launch of the company's largest storage facility to date, the Helios Terminal in Singapore, as well as the commencement of supply services at the GPSChemoil Terminal in Fujairah.

With entry into Fujairah, Chemoil became the first independent marine fuel provider to have a presence in the world's three largest ports: Singapore, Rotterdam and Fujairah. This new market has boosted our competitiveness and volumes, making Middle East and Asia our strongest growth region. We continue to strengthen infrastructure in Fujairah.

Furthermore, by bringing greater supply chain control to the Fujairah market, Chemoil is taking an important role in driving forward best practice standards in terms of quality control through our barge operations and increasing operational and environmental safety through our land-based storage.

Our joint venture with Adani Enterprises commenced supply services in January 2009. This move positioned Chemoil as the first international marine fuel supplier to seriously approach the Indian market, which is strategically located to complement operations for the main shipping routes of Asia, the Middle East, Europe and Africa.

Our progress exemplifies our unwavering focus to capitalise different opportunities presented in different times. We are always reviewing and seizing strong emerging opportunities on the world map to capture new markets that help drive volumes and revenue growth, and augments our sourcing and delivery of fuel supplies worldwide, through strategic acquisitions and partnerships.

Green issues

Last but not least, environmental issues will continue to top the agenda together with commercial pressures. We might

question whether this momentum will continue or get distracted with temptations to cut corners in harder economic times. Some players may hope that the agenda will be slowed down. However, with the timetable by the International Maritime Organization (IMO) set in motion, it would be naïve and a grave mistake to sideline emissions reduction issues.

In the USA, it is evident that legislative momentum is continuing and in Europe, we need to be prepared for more stringent legislation as the regulatory heat turns up. Even then, adjustments and flexibility in operations and business models in these mature areas could still result in a balanced approach in meeting both environmental and commercial needs.

For example, we had good profit contributions from our operations in the Amsterdam-Rotterdam-Antwerp (ARA) region in 2008, and have deployed a new LSFO barge in Rotterdam in January 2009. These reflect the robustness of our business model, and how well we are able to adjust our operations in order to meet both commercial and environmental demands.

We also need to face the reality that a broader range of alternative marine fuels needs to be looked into seriously as an industry collectively. There is mutual agreement that a complete switch to distillates will not be sustainable in terms of cost or availability. Therefore, it is important that we work together to explore the feasibility of developing knowledge on the use of alternative marine fuel products. New scrubbing or abatement technologies also need to be given serious consideration alongside developing fuel choices.

Adapting operations

To summarise, the proactive development of solutions to the commercial and environmental challenges of today and tomorrow will provide the industry with greater choice and flexibility. Ultimately, this means better control over our destinies, as well as the commercial and environmental impacts that we make. With more market reshaping still anticipated, only those with the financial muscle, determination and strategic focus are likely to survive the shakeout. From Chemoil's perspective, we will work towards proactively adapting our operations within the market, rather than let change dictate our direction. By doing so, we aim to lead the business and our customers through these troubled times and into a brighter, more prosperous future. ■



Chemoil has added a dedicated LSFO barge to Rotterdam.

cant percentage of operational overheads despite the fall in fuel prices, securing credit from suppliers is fundamental to their ability to operate. And, for suppliers, having robust financing facilities combined with stringent risk management capabilities to assess customer-based risks, will be instrumental in their ability to survive these turbulent times.

Yet, while credit access is the most important lifeline to companies now, it is difficult for some shipping organisations to secure this when trust and goodwill are somewhat unaffordable luxuries. The

themselves to delivering better services and implementing stronger business plans to ensure existence. Consequently, one could argue that shipping companies should get a better bunkering experience.

While the global economy is in disarray, opportunities can still exist. Far-sighted companies will grasp this timely opportunity to focus on acquisitions, infrastructural investments and operational improvements that will strongly position them to ride the upturn. The global economy is cyclical and despite the perpetuation of doom and gloom scenarios,