

Media Monitoring

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Chemoil: Residual Fuel To Survive Emission Regulation

By Lananh Nguyen and Reza Amanat

LONDON (Dow Jones)--Next month's clean fuel shipping legislation in Europe will fail to dampen the use of high sulfur fuel oil, Adrian Tolson, global vice president of sales and marketing at Chemoil Energy Ltd. (AV5.SG) told Dow Jones Newswires.

Ships will be forced to burn 1% fuel oil in the Baltic and the North Sea from July 1, as countries adopt the International Maritime Organisation's proposal to tighten the sulfur requirement in these areas from 1.5% currently.

But bunker fuel oil trader Chemoil doubts the legislation will alter global appetite for bunker fuel.

"I don't think the use of resid [fuel oil] in the bunkers will go away, simply because there is going to be a lot produced," Tolson said. "You've got to accommodate the fact that there is still going to be refineries in the world pouring out residual fuel for decades upon decades to come and it has to go somewhere," he added.

The shipping industry has traditionally used residual fuel, also known as fuel oil, to power vessels because it is the cheapest part of the oil barrel. The fuel, which is highly viscous and sulfurous, is the most economical way to power the fuel-intensive shipping industry.

However, the use of fuel oil has been come under increasing scrutiny in recent years as governments strive to reduce emissions from the transport industry.

Chemoil, which is 51.5% owned by global commodities trader Glencore International AG, is a major independent supplier of marine fuel. The company purchases fuels and transports them to service centers where they are blended, stored, sold and delivered to shippers.

The company is adopting a "wait-and-see" approach to the legislation, which could prompt a shift in the types of fuels it supplies.

Tolson expects residual fuels to remain important despite upcoming International Maritime Organization regulations which require ships sailing in Emission Control Areas, or ECAs, to burn cleaner marine fuel with a maximum of 1% sulfur limit, from a current 1.5%. The ECAs include areas in the North Sea, Baltic Sea.

The regulations take effect on July 1, and will become even more stringent by January 2015, when the sulfur limit will be lowered to 0.10 %. The same policy is due to be implemented for North American and Canadian shores, and is expected to be in full effect by 2012.

The new legislation could give rise to wider use of marine distillate fuels, which are cleaner than residual fuels.

The ambitious emissions reduction targets have thrown uncertainty over the shipping and refining industries, where huge investments are needed to comply with the regulations. Some critics argue that the world's refineries don't have enough capacity to produce the required amount of marine distillate fuel. Instead, they suggest ship owners should install scrubbing technologies on their vessels to "clean" the residual fuel.

Tolson admitted there will be increasing use of distillate in coastlines worldwide but notes that the key to the futures of residual marine fuel will be how future regulation will deal with emissions on the open sea.

Ships currently carry two fuel tanks onboard, allowing them to burn cheaper fuel with a 3.5% sulfur content on the open sea, then switching to cleaner bunker fuel when entering the ECAs, which are coastal and inland waterways with emission limits.

"The question is...will we be seeing distillate being required on the high seas?"

"Between 2015 and 2020, there will be a meeting of the minds and by then scrubbing technologies will be there and will find a way of reducing emissions from vessel that are burning resid," Tolson said.

Chemoil had a net loss of \$13.5 million in the first quarter, compared to an \$8.8 million dollar profit a year earlier. The company has a total fuel storage capacity of over 1 million cubic meters worldwide and employs about 350 people in its fuel trading and logistics business.