Suppliers take new sulphur restrictions in their stride

Friday 30 July 2010 by Martyn Wingrove and Craig Eason

SPECIAL REPORTS

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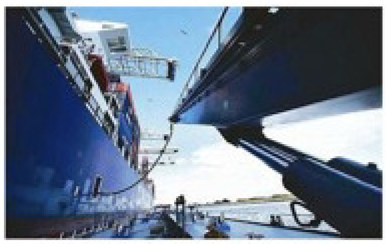
MARINE fuel suppliers have little to fear from the latest changes in emissions reduction regulations that came into force on July 1, but they are already preparing for the seismic shifts that promise to re-shape the market over the next decade.

Ships coming into the northern Europe emission control area — currently the North Sea and Baltic Sea — have to use a fuel with a sulphur content of less than 1% after the changes this month.



A ship takes bunkers at Rotterdam. photo: Chemoil

Ships can, of course, use this more expensive fuel for the whole voyage but as the premiums shipowners pay for low sulphur fuel can be as much as $50 per tonne, this is unlikely to happen

"New sulphur restrictions will not cause problems and will be price adjusted as long as it does not go much below 1%," Angus Ogilvie technical director at British bunker supplier Cockett Marine said.

"In January 1, 2013 the global cap on sulphur levels goes down from 4.5% to 3.5%, but that will not impact the market much. It will not cause much heartache."

Christophe Giradot, head of marine fuels for French oil major Total, agrees. "We have had to deal with the low sulphur regulations in Europe," he said. "We do not see the sulphur issue as a major problem as we have managed to adapt our production and logistics. So when the sulphur levels went down to 1% this month it was not much of a problem."

The next change to come for the bunkering sector is when North America introduces a ECA zone in 2012, covering the east and west coasts of the US, Canada and the French islands off east Canada.

Adrian Tolson, vice-president for sales and marketing with Singapore-based bunker supplier Chemoil, said the introduction of this ECA will have more far reaching consequences than the tightening of controls in Europe.

"The market will be more challenging in the future," he said. "In 2012, the North America ECA will be coming. It will have a major impact and could be more challenging for shipowners and suppliers. It will be most tricky for shipowners to find the right supplier in the right location coming to the US. For ships coming from the Far East, the problem will be where will they find bunker fuel to comply in the ECA zone before reaching ports like Los Angeles."

In 2015, the bunker sector will face a new wave of restrictions. The European Commission is looking at the feasibility of turning the Mediterranean into an ECA and the sulphur content rules get even tighter in an ECA, going down to 0.1%.

"When the sulphur levels in the ECAs go from 1% to 0.1% that will be expensive," said Mr Ogilvie. "There will be problems in supplies, especially in the winter, because of competition between bunkers and power stations for fuel oil."

Mr Giradot expects this will be a problem for major oil refiners and fuel suppliers. "The big question is whether the industry will be able to supply residual fuel oil at such low sulphur levels?" he said. "At the moment, it does not exist. If strategies are not developed there will not be enough distillates in the low sulphur areas available in the market to supply the bunker outlets.

"We are starting to prepare for the 2015 changes as a refiner, looking at refinery design and producing fuel oils with lower sulphur levels. But if you continue to shift from fuel oil into distillates, it will be expensive — the latest global estimate is $1bn."

The exhaust gas cleaning companies are currently waving their hands and telling the shipowners to use their equipment so they can keep openly using regular higher sulphur fuel, but the manufacturers are simply not ready to sell en-mass and the first set of rules have already come into force.

This is when the scrubber makers see their market taking off, especially as the rest of the world will be facing the possible change in sulphur levels in marine fuels in 2020 to 0.5%.

The world is going to need a lot more low sulphur fuel, and that will mean a lot more refineries with upgraded capabilities — something the industry is just starting to wake up to.

"We are studying how to develop our refineries and are promoting scrubber technology," said Mr Giradot. "We will look at putting scrubbers on our own ships, or on those we have on long term charter."

Making low sulphur fuel is not a problem nor is selling the sulphur to north African farmers that need abundant supplies to fertilise their fields, but the price of sulphur only partly offsets the cost of removing it from fuel in the first place. The bunkering industry will continue to face challenges beyond these changes and will have to adapt to them.

"There will be other challenges, more ECAs and the shift to distillates in 2020," said Mr Tolson. "The industry has 10 more years of tightening regulations and it is unknown what will happen at the end. The question is how the industry will go to distillates. Scrubber technology will have to play a part and not every ship will run on distillates."

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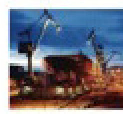
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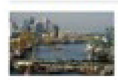
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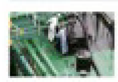
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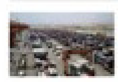
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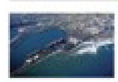
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