

Outlook for Marine Bunkers and Fuel Oil to 2025 Sourcing Lower Sulphur Products

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Increasing pressure from governments to address the issue of sulphur levels in ships' bunkers has led IMO to agree in October 2008 to a severe cut, phased in over the next 12 to 17 years. This change in bunker quality specification will have profound implications for both the bunker and refining industries since it could imply a widespread switch to burning middle distillates in ships' engines. This set against a background of excessive fleet capacity and a server economic downturn.

Marine and Energy Consulting Ltd and EMC have co-operated to complete this report, which follows on from our previous two bunker studies and provides a detailed assessment of the potential economic and operational implications of these radical new proposals, not only on the bunker market, but also for refining investments, product price differentials and products trade. It also examines the extent to which technology could soften the impact through economically viable abatement systems, such as on-board scrubbers.

The study provides detailed input to planning and operational issues for all aspects of the interface between the supply and consumption of residual and distillate fuels as bunkers and inland.

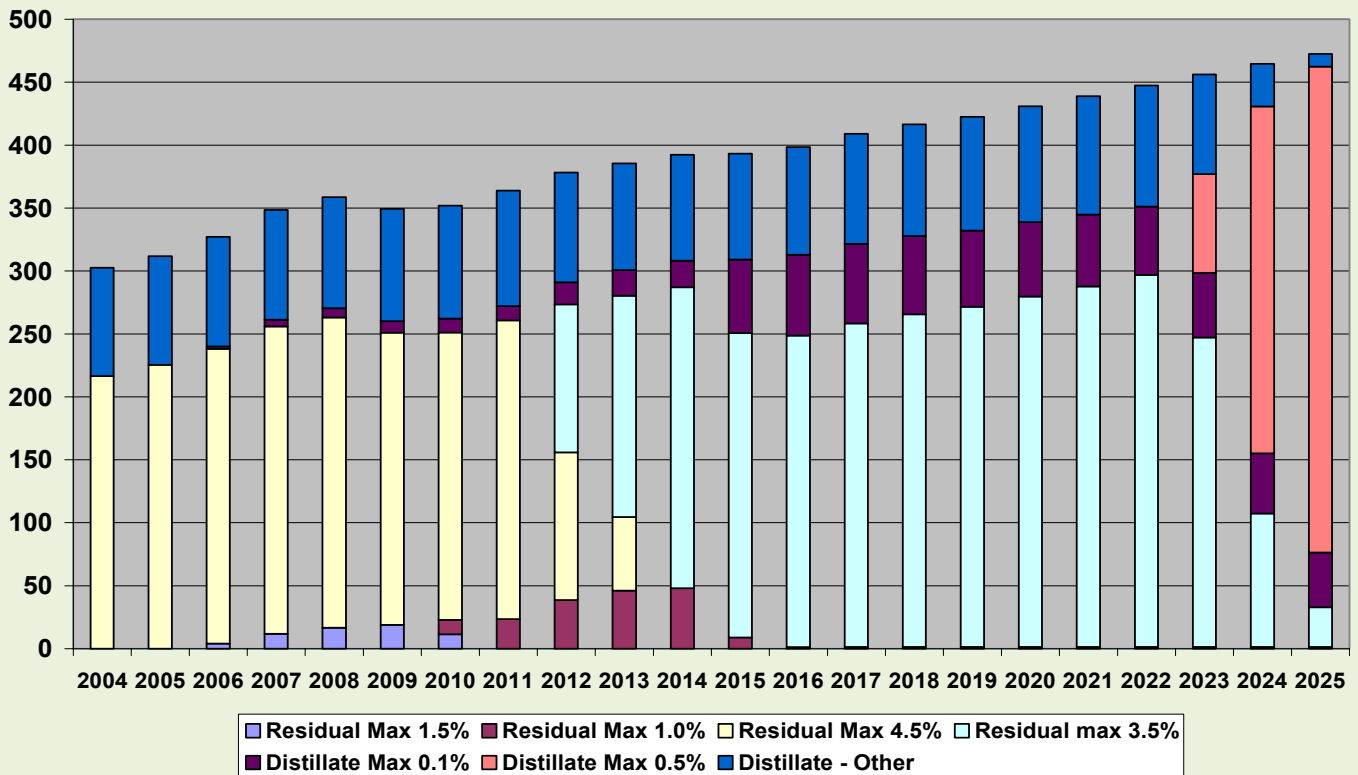
Specific topics covered in the study include:

- Proposed future marine emission legislation including possible new Emission Control Areas
- Detailed forecast of the world fleet and its bunker consumption by type and location
- Price projections for low and high sulphur fuel oil and distillate bunkers and the impact on future bunker fuel costs relative to crude oil
- Comparative technical specifications and viability of vessel abatement systems
- A forecast of the prospective world fuel oil demand for, and supply of, low sulphur and high sulphur distillates and fuel oil for inland and marine bunker consumption by main geographical regions
- Considerations as to how the international refining industry will react to the proposed IMO changes, in particular in the context of potential restructuring in the industry
- An evaluation of the feasibility of a switch from residual fuel oil to distillate as bunker fuel in terms of refining investments so as to implement the IMO recommendations within the specified time frame
- Future sourcing of low sulphur residual and distillate fuels

This detailed study examines issues of vital interest to:

- *ship owners*
- *ship charterers*
- *refiners*
- *traders*
- *fuel oil consumers*
- *oil storage operators*
- *engine and lubricating oil manufacturers*
- *legislators*
- *enforcement agencies and,*
- *technology providers*

Bunker demand – million tons



Some Findings from the Study

The single most significant change to bunker supply since the change from coal to oil is the introduction of regulations to reduce emissions to air. With respect to the demand for marine fuels, it is the desire to reduce sulphur oxides emissions that has the greatest impact.”

“The economic downturn will result in bunker demand being nearly 6% lower in 2009 than 2008 with recovery to 2008 levels by 2011. This in the face of a 20% increase in total available tonnage by then. There is expected to be a considerable level of idle and laid-up tonnage over the next four years.

“The regulations will result in the use of seven types of bunker fuel over the next 20 years defined in terms of sulphur content. Four residual and three distillate specifications will be used, assuming the global cap is reduced to 0.5% sulphur.”

“Compliance with the IMO recommendations will necessitate a considerable amount of new investment and changes in operations, both on land and at sea. The main battleground will be between the refiners and the ship owners as to which group will have to make the required investment. Behind these two groups will be the politicians and lawmakers, who will be responsible for establishing the national dimensions of the time-scale and areas within which the consumption of the new marine bunker specifications will be mandated and for enforcing compliance with the regulations.”

“The introduction of 1.0% sulphur bunkers in July 2010 will present particularly arduous stability and other fuel quality problems. Purchasers will need to pay particular attention when stemming this product. The switch to 0.1% sulphur fuels in SECA in 2015 will eradicate these issues.”

“In effect, the result of the new IMO regulations would be to eliminate most of the HSFO from the marine bunker market by 2020. We believe that this timing will have to be extended to become effective in, say, 2025 because not enough refiners will be able to supply sufficient LSFO or gas oil to replace the HSFO by 2020.”

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Fee Information

The study is now available at a cost per hard copy of £6,500 to new subscribers and £5,250 to previous subscribers.

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