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BUNKERSPOT

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A credit reboot

Marine fuel credit has taken some knocks and shocks this year, with the impact of the pandemic and the collapse of two large bunker names. As **John Phillips** of Awyr Las explains, now is the time for companies to undertake a review of credit processes that will serve them well in the return to a more stable and financially supported market

No one expected 2020 to play out as it did, certainly not me. Starting the year heading a highly capable team at one of the largest bunker traders in the market, by July I found myself preparing for a period on the beach. That largely encapsulated many people's 2020 so I am certainly not unique in this most challenging of years. How did this come about, and where does that leave bunker credit as we approach H2 2021?

Let's step back a moment. As we manoeuvred our way across H2 2019, all the talk on the conference circuit, and indeed most trading floors, had been about 0.50% sulphur fuel availabilities. What the global product mix would be, and where it would be. Could the product be of dubious quality, even if you were fortunate to source it after the big players had absorbed the 'lion's share' of those avails. Discussions about 'scrubbers' or more correctly 'exhaust gas abatement systems' had slowed as the focus swung firmly into what price would your bunkers be in 2021, and whether burning gasoil would be the more likely solution, given these Y2K type concerns over product avails and compatibility/ quality issues. For us, at the bunker credit 'coal face', it was more about who could be relied upon to pay these much higher bills.

At the time, I found myself heading a great team that had delivered a near zero default scenario for our employers, and felt rather assured in our future, but like our peers we 'buckled down', and 'tightened our belts'. Our customer portfolios were reviewed, and lines reduced or eliminated where those customers were considered to be at too high a risk of default under the expected financial stresses of a 50% or more jump in fuel prices. We decided that our bunker trader customers had to have viable models, our shipowning and charterering customers solid assets or business propositions, and major counterpart reviews were taking place as we all prepared for what in the end became, to be honest, a bit of a damp squib.

Product was readily available, albeit aided by a slowing demand due to the ravages of COVID-19 as it first established itself across the Far East. Later, as demand faltered across Europe and the Americas, so the Far East began to re-emerge, with the result being a rather stable market with regard to avails at least. Despite the rollercoaster ride that COVID-19 has since delivered, perhaps one of the few marginal upsides of an otherwise globally destructive pandemic could be that of the stability it allowed in the availability of 0.50% product.

> 'Bunker is a big book and one which cannot be ignored; the banks must and will return as their respective P&Ls will be showing big holes as a result of such a large market's absence'

Every cloud? Well not entirely, as a global crude price collapse, partially due to the pandemic but probably as much a reaction to geopolitical machinations, had an equally devastating impact. Whilst no one may have died as a direct result of this, the economic and commercial implications have been severe. Whilst COVID-19 has not passed many of us untouched in some way, the collapse of two major players in the Hin Leong group and Gulf Petrochem, may have completely by-passed many outside our sector as headlines remained, properly so, with the pandemic. Nevertheless, the impact caused by these two companies in particular has been felt savagely by the financial institutions, and that has had a real impact on many of our commercial aspirations.

Now whilst this piece is not intended to look at the whys and wherefores as to what happened in these two collapses (only time and full investigations may ever come close to disclosing this), it does aim to address the impact of these two major events on the bunker / oil trading sector at a time of heightened global geopolitical and economic stress, and in the teeth of a global pandemic tragedy.

The 2014 collapse of OW Bunker may have impacted widely across the bunker sector, resulting in some knock-on collapses, numerous vessel arrests, and a general drive towards direct trade between end user and physical supplier. However, in this more recent spate of failures, for varying reasons (and with many in the key Singapore market) over the last few years including the likes of Universal Energy, Transocean Oil, Searights, SeaHub, Panoil, Brightoil, Aegean, Southernpec, Inter-Pacific Petroleum, Hin Leong and GP Global, the focus appears to have been more on malpractice and suggestions of fraudulent activities.

This has hit the financial institutions hard. A bunker market starved of credit is doomed and the withdrawal of a number of long-term supporters has had a major impact. It is often said that cash is king, but reputation is everything right now and, with a tarnished reputa-

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John Phillips

tion, being able to hold on to facilities already established, let alone develop new facilities, became onerous if not near impossible.

We have long taught on various bunkering courses that reputational damage can be as bad as, if not worse than actual financial loss. The latter can be accounted for under P&L and can quickly be forgotten, the former can take years to recover, if ever. With banks reeling and the insurers equally unimpressed by these suggestions of wrongdoings so the challenge becomes how to reinvigorate the sector, how to return confidence. One thing remains certain, global freight will continue to exist, and at current or higher levels for the foreseeable future, and residual and/or distillate oils will be the dominant fuels for quite some time to come. Financing of these supplies will remain essential.

Certainly, new money will be there, with the likes of Modifi amongst others offering viable solutions. However, the primary goal must be to recreate an environment of trust and to bring the more experienced, priced and capable channels back to the table. Some evidence of this is already emerging, and around credit insurance meeting rooms it appears that opportunities are slowly returning. Bunker is a big book and one which cannot be ignored; the banks must and will return as their respective P&Ls will be showing big holes as a result of such a large market's absence. One thing will pervade though, those fortunate enough to secure new credit insurance or financial support from those who had exited or reduced their footprint will need to be strong and capable candidates. They will need to be transparent, robust, and have business models that support their intended lines.

At Awyr Las Ltd (ALL) we are working hard to support this return. Our 'Blue Sky' vision being that by facilitating those smaller, transparent, robust and stable businesses with system and process support we can begin the process of accelerating the return of confidence to a sector that has suffered a number of blows. Where appropriate, ALL works on the strengthening of existing credit management processes and methods, and introducing the concept of modelling or embedding the well tested credit model we market for MantraWork. Further, ALL seeks to provide best advice on suitable credit insurance products to meet specific client needs (and introduce suitable brokers into the equation where appropriate) and most importantly, to provide ongoing support through system (credit management) audit on an ongoing basis, either remotely or via visits (COVID-19 restrictions permitting).

Having been invited to sit on the Advisory Group of the fledgling Marine Fuels Alliance (MFA) launched in late April at Petrospot's *Global Bunkering Summit 2021*, ALL is doing its part to try to get those best practices into more common usage across, in particular, physical suppliers. Aiming to help them in understanding how to conduct realistic, reliable and repeatable credit counterpart suitability reviews in a timely manner, selecting the right support products (e.g. Infospectrum, Lloyd's List Intelligence, Dynamar, SeaCred reports, etc) and how to use them. How to manage delinquent or risk of default accounts, and how to leverage each business to obtain credit insurance support (if sought) and ultimately better banking facilities through such adoption of best practice and externally audited processes.

So, whilst 2020 can be easily described as a most horrendous year for so very many people, both commercially and, more significantly, with regard to the global pandemic, there have been some positives to draw from it. The much-feared supply dearth of compliant fuels didn't really emerge. The withdrawal of banking and other financial support to the sector has been finely balanced by new entrants bringing money and facilities / services to the table, whilst those who have continued to offer support have rightly tightened their audit policies on customers and trades. Overall, perhaps this augurs well for the health of the sector, and for those seeking to promote either fingerprinting or block chain processes to improve product transparency, opportunities will increase. All in all, it means that 2021 as it transitions into 2022 should see some return of confidence, with cash flowing back in but in a more measured and responsible manner and a continued stabilisation of the market.

Sadly, as a final thought, no-one can really predict what could come in from the leftfield. So, the old mantras of being prepared, and conducting repeatable and regular checks on your counterparts remains key to mid/long term survival.

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