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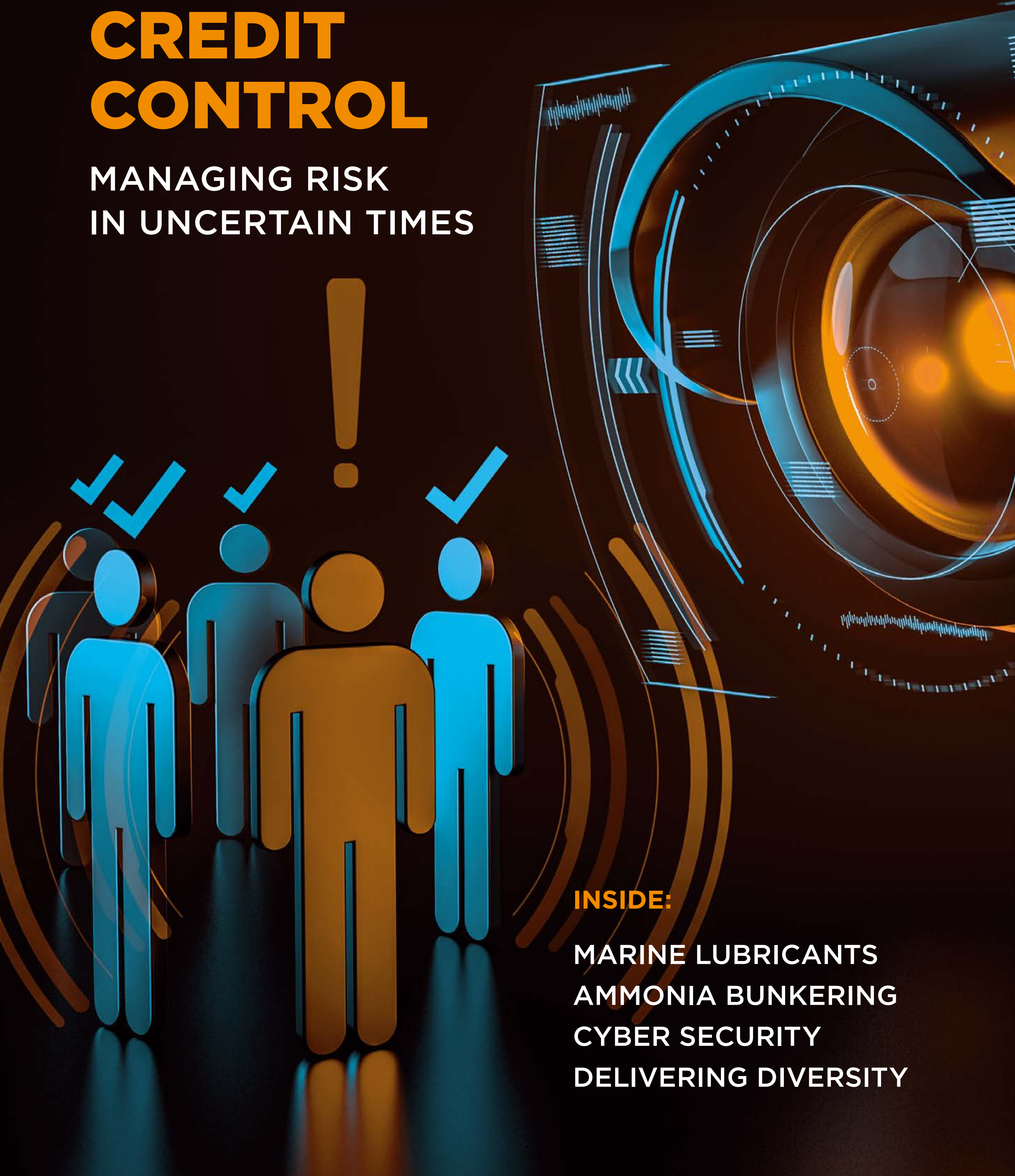
BUNKERSPOT

CREDIT CONTROL

MANAGING RISK IN UNCERTAIN TIMES



INSIDE:

MARINE LUBRICANTS
AMMONIA BUNKERING
CYBER SECURITY
DELIVERING DIVERSITY

Full disclosure

The buying and selling of marine fuel can be a complicated and opaque process. A session at the recent *Shipping Finance 2021* online conference turned the spotlight on the bunker deal and considered the relationship between the industry and its financiers. Llewellyn Bankes-Hughes reports

Bunkering ought to be very simple but many outside the day-to-day business do not fully appreciate or understand the financial complexities that are often involved in transacting a typical bunker stem. Multiple parties and multiple contracts, a complicated string of financial arrangements and any number of operational and legal hurdles all need to be considered, before, during and after any bunker delivery.

With that in mind, a session entitled 'Banking on Bunkers' was part of this year's *Shipping Finance 2021* online conference, hosted in March by Greek organiser Slide2Open and jointly moderated by Petrospot's Managing Director, Llewellyn Bankes-Hughes, and Piraeus-based senior bunker broker Irene Notias, Managing Director of Prime's BunkerPlus Services.

The session was designed to outline the complexities of the bunker deal while underlining the importance of transparency and cooperation in building credibility and securing trust among the players involved. It also aimed to show that a good understanding of each other's position allows for better decision making.

The panel consisted of Sifis Vardinoyannis, Business Development Director at Sekavin Bunkering Stations, who represented the bunker supply side of the business, with Stamatis Xochakis, previously a bunker supplier with Macoil and now a buyer with Tsakos Energy Navigation, representing the bunker buying side. The bunker supply, trading and credit sector was represented by Amsterdam-based Kieran Michael Brown, now Group Credit Manager at Island Oil (Holding) Limited but previously, among other credit-related positions, at Dynamar, Lloyds List Intelligence, Bunkers International and Bomin. And representing the trade credit and insurance side of the business was Makis Tzeis, Managing Director of the Greek branch of insurance company Atradius.

Irene Notias mapped out the procurement process for a bunker inquiry, showing the supply value chain and how the various players are interdependent, with the banks and credit insurers at the heart of the deal, fueling the entire process with money based on credit.

In the run up to the introduction of the International Maritime Organization's (IMO) 0.50% sulphur cap at the start of 2020 there were fears that the price of compliant fuel would surge and remain high. For a short period, bunker suppliers enjoyed a bonanza, and many predicted a credit squeeze. But, with the onset and rapid spread of the coronavirus, prices fell back, and financial problems were largely avoided. However, with banks and credit insurers seemingly turning their backs on the bunkering business – starting with the downturn of 2008 but more so since the demise of OW Bunker in November 2014, and potentially even further following the collapse in 2020 of two seemingly solvent suppliers in Hin Leong and GP Global – the session looked at how serious this situation actually is. The panel discussed the consequences and what conditions will be needed to entice the banks and insurers back.

Speaking on behalf of the trade credit sector, Tzeis said that insurers are not demonising the bunker sector as such, but that there are tools available, such as invoice pledging, which can mitigate against some risk, especially since the industry works on razor-thin margins. According to Brown, if traders can insure their receivables, they should do so to help generate cash flow, especially in an environment where they are obliged to buy from suppliers cash in advance but sell on credit terms to buyers.

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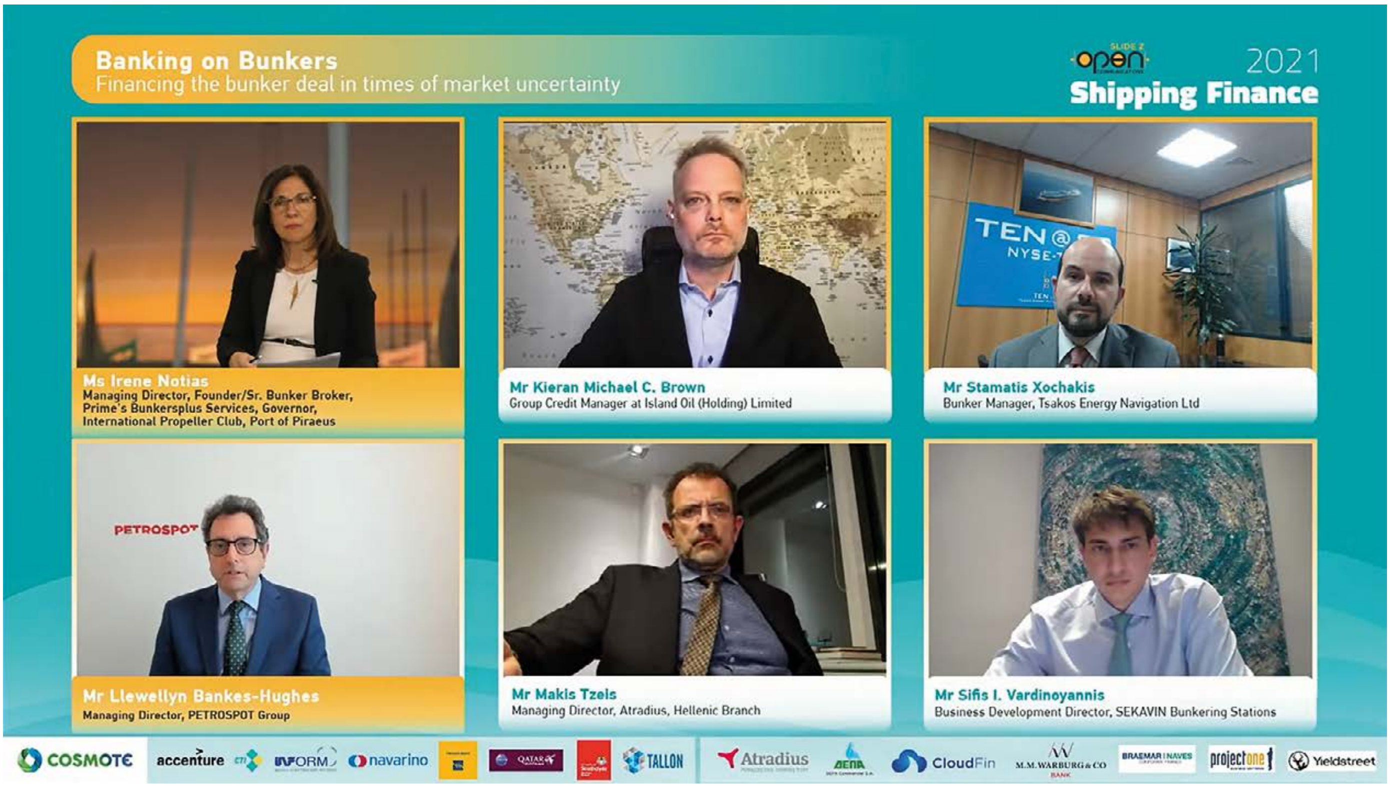

Most large traders and suppliers now have some form of financing where their receivables are pledged, but smaller players are at a disadvantage because they have to rely entirely on supplier credit, which is not always available. However, some private equity companies are pursuing the smaller traders to offer them some form of trade financing.

From the supply side, Vardinoyannis added that while it is certainly now more difficult to finance the business, by keeping everyone in the loop and being open about how the company operates – and being as transparent as possible – it has been made easier to finance the business and provide some value to clients.

While 2020 proved not to be as onerous as anticipated in terms of a credit crunch, the panellists were asked whether, should oil prices rise significantly, the credit issues that had been expected a year ago would suddenly hit hard but the consensus was that the system is sound and should manage.

On the issue of transparency, it was generally agreed that the more transparent and forthcoming the buyer is, the easier it is for a trader or supplier to know his counterparty and therefore to be in a position to offer the buyer better credit terms. According to Brown, the more information you have about your buyer, the more comfortable you are about giving credit. If information is not forthcoming, a supplier or trader must be more careful.

As a neutral broker, having to help both the supplier and the buyer to find common ground to do business, Notias pointed out that the task is becoming more complicated, with knowing your counterparties, sorting out credit checks and due diligence, trade references, bank references, money laundering and other checks far more time consuming, but unavoidable.

When asked what advice he would give to a prospective bunker supplier and prospective bunker buyer in terms of securing credit insurance, Brown said that transparency and timely communication between all stakeholders are the two most important elements in the process.

The panel was asked to what extent smaller bunker suppliers – maybe those in niche markets or single ports, with loyal customers and a long history of excellent service – are now under threat from a lack of bank finance compounded by the growing presence of large, heavily funded trading houses with strong balance sheets who are lapping up smaller competitors and muscling into their business.

Vardinoyannis said that local suppliers may well be better placed than the larger players because they can leverage their local expertise to everyone's benefit, so, often, using a local supplier might be the safer option. In addition to this, Xochakis said that bunker quality and price remain the two key elements in any bunker purchase.

The gist of the panel was that although bunkering can be both simple and complicated, the key is transparency and cooperation between the suppliers and the buyers. The more trust that each party has in the other, the more streamlined and successful the bunkering transaction will be. And the greater understanding each party has of the constraints of the other, the better it will be for everyone. In conclusion, Notias advised that if there were one piece of advice to share, it would be to know your counterparty, be as transparent as possible, and always pay on time.

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