

February 04, 2019

Global Marine Bunker Outlook

Marine/Bunker Fuel Market Outlook

The International Maritime Organization (IMO) in October 2016 adopted a regulation to implement a 0.50 wt% limit on marine bunker fuels globally until Jan. 1, 2020. The IMO's decision was based on the findings of the Assessment of Fuel Oil Availability study conducted by the Stratas Advisors. The sulphur limit for fuel oil used by ships in SOx Emission Control Areas (SECAs) is already set at 0.1% m/m equivalent emissions and remains unchanged. The IMO's global sulfur cap applies to all ships, unless they use abatement technology such as Exhaust Gas Control Systems (EGCS) and alternative compliant bunker fuels including Liquefied Natural Gas (LNG), Liquefied Petroleum Gas (LPG) and methanol to achieve equivalent or lower emissions of sulfur oxides. The new rule will apply to all global waters – there will be no exceptions. The new regulation presents both opportunities and risks to the shipping and refining industries.

Implications on Shippers

The shipping industry has limited options rather than to use HFO ($S \leq 0.5\%$ S m/m) or other compliant fuels. Even though MGO 0.1% can be readily used without modifying the ships, an increased number of shipping companies are opting for EGCS highlighting that they are willing to continue using HFO ($S > 2\%$ S m/m). The shipping industry as a result will face increasing capital expenditures and operating costs. Increasing number of shipping companies are opting for EGCS to take advantage of an anticipated decrease in HFO ($S > 2\%$ S m/m) prices. About 3,800 ships, which are estimated to be installed with EGCS by 2020, will continue using HFO ($S > 2\%$ S m/m).

EGCS are currently preferred among ship owners. Rising interest among ship owners to invest in EGCS highlight they are willing to continue using HFO ($S > 2\%$ S m/m) rather than compliant bunker fuel. Currently, less than 1,000 vessels in the global fleet have EGCS, and expectations are modest for annual additions due to the limited capacity of the EGCS manufacturers. The number of LNG-fueled vessels are expected to grow in the long term, corresponding to improvements in the LNG bunkering ports and terminals across regions. Penetration of alternative bunker fuels, including methanol and LPG, will be slower than LNG. Based on the number of ships fitted with EGCS, majority of ship owners face rising bunker fuel costs. It remains uncertain any increase in bunker fuel costs would be accompanied by a corresponding increase in freight rates.

Implications on Refiners

The new regulation presents opportunities and risks to refining industry. For some refiners, the regulation presents opportunities to benefit from changes in bunker specification. There are incentives for refiners to upgrade the refineries because of anticipated increase in prices across all oil product categories. Refiners see such strong price signals as incentives to produce IMO compliant fuels. A growing number of refiners have shown interest to upgrade existing refineries. Changes to refinery processing strategies will be made to produce HFO ($S \leq 0.5\%$ S m/m). Refineries will be re-evaluating refinery processing strategies in terms of crude slate optimization and production of blending components to produce desired bunker fuel grades.

Since the announcement of the IMO 2020 regulation, a growing number of refiners have shown interest to upgrade existing refineries. A large share of refinery upgrades and conversion capacity additions will occur in the Asia Pacific region. Between 2020 and 2025, the Asia Pacific region is expected to add conversion capacity of 3,895/MBPD, accounting for 62% of global conversion capacity additions. Total hydroprocessing and middle distillate hydrotreating capacities in the Asia Pacific region between 2020 and 2025 are estimated to increase by 1,929/MBPD and 1,122/MBPD, accounting for 38% and 47% of global capacity additions, respectively. Based on refining capacity expansion plans, the refining sector can produce enough HFO ($S \leq 0.5\%$ S m/m) sulfur fuel to meet marine fuel demand, and at the same time satisfy demand from other market sectors.

The rest of this report is available to subscribers of our [Global Marine/Bunker Fuel Outlook Service](#). Not a subscriber? [Create an account](#).