A foot in both camps

Sandra Speares talks to Inatech's **Alok Sharma**, who says his company works on "both sides of the manifold"

IT services and consulting company Inatech has "marine fuel in its DNA", according to head of marine Alok Sharma. It focuses on the manufacturing, retail and distribution sectors, with the marine solutions business unit focusing specifically on shipping and bunkering.

"We create fuel management platforms for shipping and bunkering companies," Sharma explains.

For shipping companies, the company has a product called ShipTECH, which is an intelligent buying platform, while for marine fuel suppliers there is BunkerTECH, which he describes as "an intelligent selling platform". The company therefore works on "both sides of the manifold" he says, which he believes puts it in a unique position.

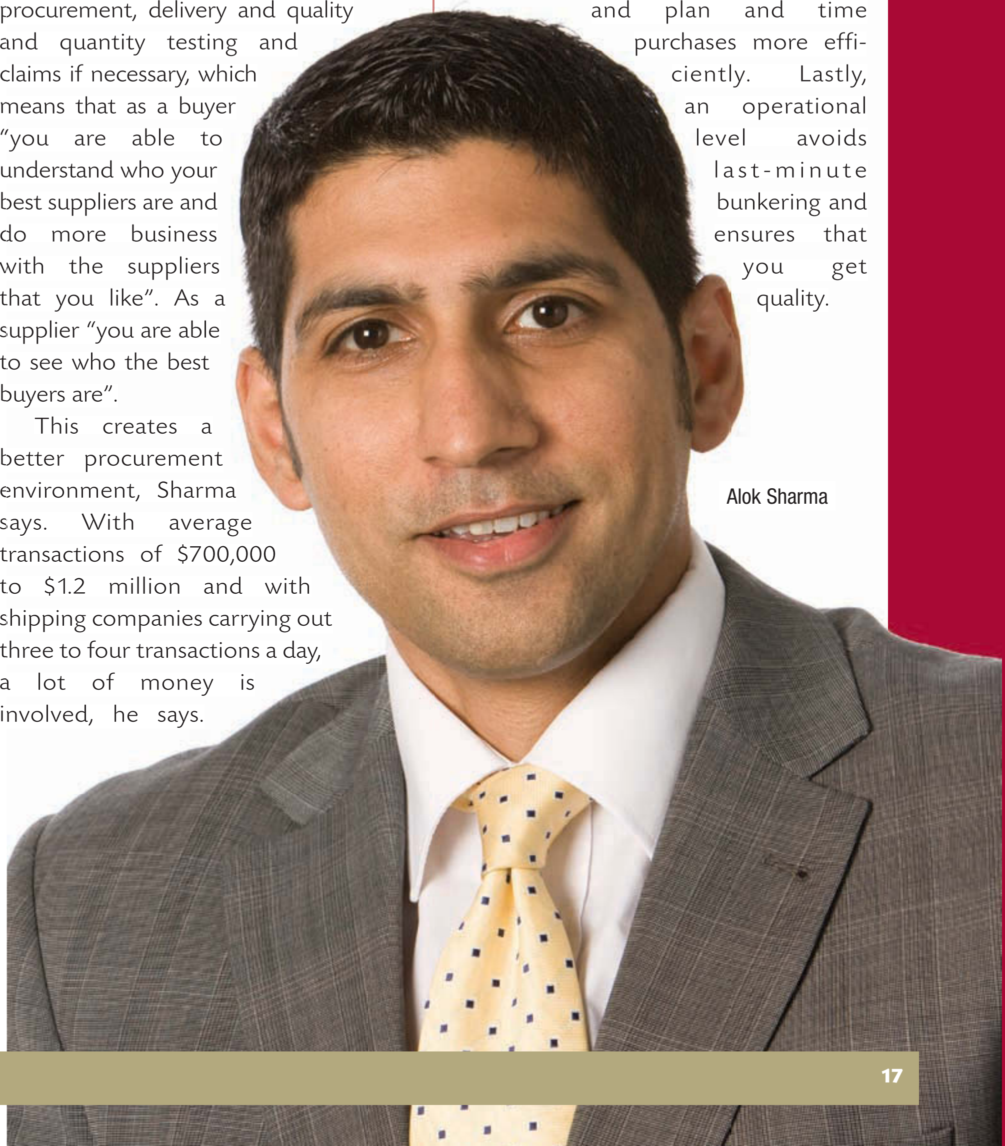
"Everyone is very wary when they are buying or selling oil, he says, and creating a platform that integrates and brings a level of transparency between suppliers and consumers allows for better communication to take place. We like to think that better communication is the first layer on which you can start building trust."

Sharma says that the traditional procurement platform has been created to procure physical things that are all the same. Oil, however, is different because there are quality and quantity checks, testing and laboratory involvement and a lot of information is exchanged. He says he feels that if this information is consolidated in one platform, the "comfort level" is increased.

The companies using the platform can conduct the entire operation, including procurement, delivery and quality and quantity testing and claims if necessary, which means that as a buyer "you are able to understand who your best suppliers are and do more business with the suppliers that you like". As a supplier "you are able to see who the best buyers are".

This creates a better procurement environment, Sharma says. With average transactions of $700,000 to $1.2 million and with shipping companies carrying out three to four transactions a day, a lot of money is involved, he says.

The platform operates on a strategic level, taking into account risk management and vessel portfolios, as well as on a tactical level, allowing the user to conduct better negotiations and plan and time purchases more efficiently. Lastly, an operational level avoids last-minute bunkering and ensures that you get quality.



Alok Sharma

The hot topic for a marine fuel supplier these days is credit, Sharma says. Even a rough calculation involving a supplier providing 30,000 tonnes at $650 per tonne over 45 days adds up to the supplier needing a multi-million-dollar credit line from the bank to finance the shipping company. From a sales perspective, the supplier must therefore ensure that the company is credit-worthy and also hedge the risk, because the sale is often on a fixed-price contract. As well as helping companies manage finance and operations better, the Inatech tool helps with inventory management and quality issues, such as whether the fuel is on spec.

Looking at the macro picture as far as fuel oil is concerned, Sharma says there are two key drivers. The first is that there is likely to be a shortage of fuel oil in the next three to five years, because refining capacity is getting into distillates, and refineries do not want to produce fuel oil, and within it, bunkers are "the bottom of the barrel".

From a demand point of view, things are also changing, because the three biggest consumers of fuel oil are power, industry and bunkers. While demand for bunkers is expected to remain steady, power and industry will be consuming less and less, Sharma explains. Currently, about 11% of the barrel is fuel oil, he says. "In the next 10 years, that is going to decrease to 4%." Refineries are in the process of creating sulphuric acid for sale to fertiliser companies as well as petroleum coke, which is a coal substitute for which demand is stronger than for fuel oil.

Shipping at this juncture is having to look for substitutes, because of new regulations coming into force, and that uncertainty is leading to price volatility, Sharma says. At present, 85% of what is being burned is high sulphur and this will have to change radically within the next five years to meet regulatory demands.

While he does not expect that 2020 global cap deadline to be put back to 2025, Sharma says there may be some negotiation over certain categories of ship. The three alternatives available to deal with the issue are scrubbers, LNG and/or alternative low-sulphur products. He believes the third should be the centre of the industry's attention. Retrofitting scrubbers, he believes, is too costly, and the return over the life of the ship is not guaranteed. Getting rid of the waste water, which will contain sulphuric acid, is also a problem.

As far as LNG is concerned, the infrastructure is lacking at the moment, he says. He adds that LNG is not yet freely traded on the market and that prices may begin to go up once it starts being freely traded. "Our bets are on ultra-low-sulphur alternatives," Sharma adds. He believes that supplies will be there in time to meet regulatory requirements – but at a price. "I think that the industry will have to adjust to a different level of cost." Once the demand for low-sulphur goes up, it "will probably start tracking marine gas oil or diesel".

Bunkering faces three challenges – quality, credit and regulations, he says. There have been concerns, for example, about off-spec bunkers, which could be a claim waiting to happen in jurisdictions such as the US, which have introduced low-sulphur requirements. In cases where suppliers are providing fuels that are just under the one per cent sulphur limit, for example, there is a risk of contamination. Quality is an issue and will continue to be so, and Inatech is seeing that in the demand for enhancing the ShipTECH claims module. The module can manage a claim and incorporate bunker delivery notes, lab reports and price. Companies want to track more information through the module because they are wary of claims coming up, he says.

Another driver for claims is cat fines. Some marine fuel companies are using a material called faujosite, which means that, in addition to aluminium and silicon as catalysts, there is now sodium, calcium, magnesium and potassium, which means more sediment, Sharma explains. Unless labs test for these particular materials, they will not catch them, so shipping companies must specify that these tests are carried out to catch all the catalysts in the fuel, he says.

"Shipping companies need to be more aggressive in testing the fuels that they buy," he says.

With the move towards establishing emission control areas, shipping companies are going to have to be very careful to make sure that the quality of the fuel they use is not only on spec but helping to protect the value of their asset. That is to say, the fuel must meet the engine manufacturer's requirements.

As far as credit is concerned, the fact remains that marine fuel suppliers have to fund the shipping companies, and most of these are relying on supplier finance. "The whole industry is on credit," Sharma says. "If you look at freight rates, these are on 20 days' credit as well", so the shipping company only gets paid 30 days after it delivers the service. Sharma does not see this dynamic changing any time soon, and, for a marine fuel supplier, making sure that a shipping company is creditworthy and will be able to pay the bills is becoming critical. Suppliers are being very cautious about how they extend credit lines, and "are beginning to think more like banks do".

In the past, many deals have been done casually, but this is no longer the case. This is affecting business relationships, but Sharma says he likes to think that this is in a positive way. "You cannot get into a contractual agreement in the hope of being able to live up to it a bit late. If it is affecting relationships, then those relationships were, in my view, questionable in the first place."

The third major issue is regulation and how shipping is going to deal with it. Clean energy is a hot topic for government, and Sharma does not believe that any government will hold back on regulation. He believes there is not sufficient time to study other options for alternative fuels. From a system management point of view, Inatech tries to help its customers through better planning of how fuel is to be used, when it will be needed and what the price will be at that point.