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Bankruptcy jolts bunker sector

A credit squeeze grips the Singapore bunker market after the collapse of leading player OW Bunker. **Titus Zheng** explains the implications

> Key points

- A flurry of lawsuits is expected on outstanding claims from OW Bunker
- Most sellers from the wharf are reportedly offering cash-in-advance deals

$125M

Losses at OW's Singapore subsidiary, Dynamic Oil Trading

> Shockwaves are still being felt in Singapore, the world's largest bunkering hub, as many sector traders predict a downward spiral after leading bunker supplier OW Bunker filed for bankruptcy.

The Copenhagen-headquartered bunker trading company shocked the industry by filing for bankruptcy protection in Denmark on 7 November. In its prime, OW had a market share of nearly 7% of bunker fuel sold round the world. The bankruptcy move followed allegations of fraud tied to losses of $125M at its Singapore subsidiary, Dynamic Oil Trading.

"Almost all ex-wharf suppliers are tightening their credit control," a Singapore bunker trader told *IHS Maritime*, adding that most sellers from the wharf were offering cash in advance (CIA) "instead of normal terms".

Such cash-based transaction terms make it harder for suppliers, especially smaller bunker companies, to support their operations financially from ex-wharf to deliveries. But bigger bunker groups were also affected because some of them have larger fleets – and bigger exposure with OW.

"The big ones [bunker groups] are affected even more, as they have lots of barges," said one local trader. "They cannot just buy all [bunkers] on a cash basis as that will mean they need a few millions in cash to roll."

In turn, the larger groups will seek bank loans, at a time when banks are cautious about lending. "The banks are worried and have lost confidence in the bunker industry," explained Simon Neo, executive director of Piroj International. "They start to reduce credit to suppliers, causing problems to suppliers and traders alike."

This has created a credit crunch in the Singapore bunkering market where cash is king, pointed out Neo, who noted that the impact of the credit squeeze had even spread to end-users such as shipowners and charterers.

"Some suppliers are also asking for CIA from shipowners," Neo told *IHS Maritime*. The growing scepticism has lowered buyers' confidence levels, while the bunker sector must raise its emphasis on credit checks of companies before deciding to make a transaction.

The credit issue triggered a rise in Singapore bunker prices, which, as *IHS Maritime Fairplay* went to press, could exceed $500/tonne, basis 30 days, even as the rest of the world's bunker prices did not increase.

One South Korean trader was astonished by that rise and told *IHS Maritime*: "The suppliers in Singapore are panicky and the bunker price is higher than usual."

The higher bunker prices were caused by a snowball effect that arose from a credit squeeze. Bunker buyers were finding it harder to get cargo from ex-wharf sellers and push physical suppliers to offer either cash term or normal terms, but with a high premium as a profit return.

No one knows how long this credit squeeze will last, but Raymond Tan, managing analyst at Ocean Intelligence, noted that the "trend" has spread to other ports as well.

"We have seen in South Korea that credit dried up and the Korean majors have started to demand payment in advance, cash on delivery, or security," Tan noted.

Moreover, Tan expressed the belief that credit would not be extended so freely ever again. All market players will be cautious toward any new credit applications filed. Even the party granting credit might look more closely at risk-management processes when gauging new applicants.

Still, Tan also pointed out that other bunker traders were ready to step in the gap left by OW: "Reportedly, Aegean, World Fuel Service as well as the Bunker Holding Group stand to gain the most from OW Bunker's exit.

"In the short term, it will be down to these players to fill the gap left by OW Bunker, as OW Bunker has a worldwide presence," predicted Tan, who would not rule out that another international trading house would fill the void.

But he emphasised: "The network will need several years to come into shape."

Meanwhile, Tan also said he expected a flurry of lawsuits ahead, as bunker traders tried to "claw back their outstanding" with OW. Companies such as Hin Leong, Golden Island, Bunker House, Equatorial, and Panoil are reportedly preparing legal moves.

Shipowners might then be next in line on legal actions, according to Olivia Furmston, legal director of the Standard P&I Club, who told *IHS Maritime* that she had seen a "rise in number of enquiries" from its members.

"Most of the enquiries are asking for legal advice on payment terms and the threat of arrest," Furmston revealed, noting that much uncertainly remained on development prospects after the OW bankruptcy.

One thing is certain: suppliers want to get their money back and absorb the losses. One P&I club source told *IHS Maritime* that the affected parties would probably band together and collectively file legal actions against OW. Then, a liquidity fund might be set up so that the affected suppliers can be paid while buyers get their fuel.

Caution on compromised bunker quality would be needed even more than usual, the source added, with bunker buyers activating checks on bunkers stemmed by OW or their local suppliers.

"The liquidity fund may have a payment priority," the P&I source told *IHS Maritime*, stressing payments might drag on over a long period of time. Such a liquidity fund would have some drawbacks, such as double payments and heavy reliance on jurisdiction. For instance, the source pointed out that in ship arrests, countries practising Napoleonic law seemed to have advantages over those adhering to English Common Law.

A lien in Napoleonic law is more sympathetic towards end-users' compensation for what they bought, noted the P&I source, who advised P&I club members, however, to be cautious about paying any party without consulting the insurer.

Similarly, since the bankruptcy the Singapore Shipping Association (SSA) has urged members to take a fully considered approach to minimise any impact on the local bunkering sector.

"The bunkering industry here is a well-regulated one," declared SSA president Patrick Phoon at an industry dialogue session in Singapore.

"While I urge my members to seek professional and legal advice as necessary, I also hope that those affected by this event would remain calm and not resort to knee-jerk reactions, which may rock the stability and reputation of Singapore's bunkering industry."

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