
ENGINE - Market Intelligence

# Higher bunker prices are resulting in 50% more claims

June 29, 2022

ENGINE

# Introduction

It is important for ship owners to manage their bunker costs efficiently which are by far their largest expense. Increasing oil and bunker prices have recently resulted in a sharp increase in the number of claims as well as in the average claim amount. In such cases, maintaining strong bunker claim management is imperative.


## A rise in bunker claims in an increasingly complex environment

Since the lows of 2020, oil prices have been on the rise following the post Covid-19 demand recovery, while supply has been lagging resulting in tightness. This tightness was further aggravated by the war in Ukraine followed by the uncertainty around Russian exports and whether other countries could potentially bridge the supply gap.

With Brent trading around $120/bbl, bunker prices remain at an all-time high. Volatility is not helping bunker buyers either. Earlier this year, Brent saw volatility of up to $10/bbl in a single day with the high of $20/bbl recorded on the 9th of March. Volatility in bunker prices has been even greater, with indications for the same enquiry at times varying by $100-300. On top of this, fuel availability has become increasingly tight with many suppliers requiring at least a 2 weeks' notice to deliver bunkers. LSMGO and VLSFO have particularly seen sharp price rises, while the weakening HSFO generously rewarded those who invested in scrubbers. With oil product prices increasing sharply against Brent, bunker buyers currently operate in what would have been a $140/bbl Brent market before.

The bunker landscape has become increasingly complex to navigate. It is not only the sheer increase in oil prices that worries ship owners but also the fact that bunker claims have become more prevalent and severe. With higher potential monetary losses, claims prevention and handling has never been more important. ENGINE's analytics desk recently started working with a large customer on reducing the losses sustained from claims. The customer shared their extensive database of bunker stems and claims, and prior to commencing work, a detailed analysis was carried out with the most valuable and anonymised findings presented below. While the data is based on a single large customer operating globally and buying VLSFO, HSFO and LSMGO, it still gives a pretty good picture of what an average ship owner would be dealing with at the moment.

Looking at the data, over the past year the number of claims has gone up, from around 5% of all stems in Q2 2021 to over 8% in Q2 2022 beating the previous high of 7% achieved earlier in the IMO2020 transition towards VLSFO (Figure 1) – this is over a 50% increase!

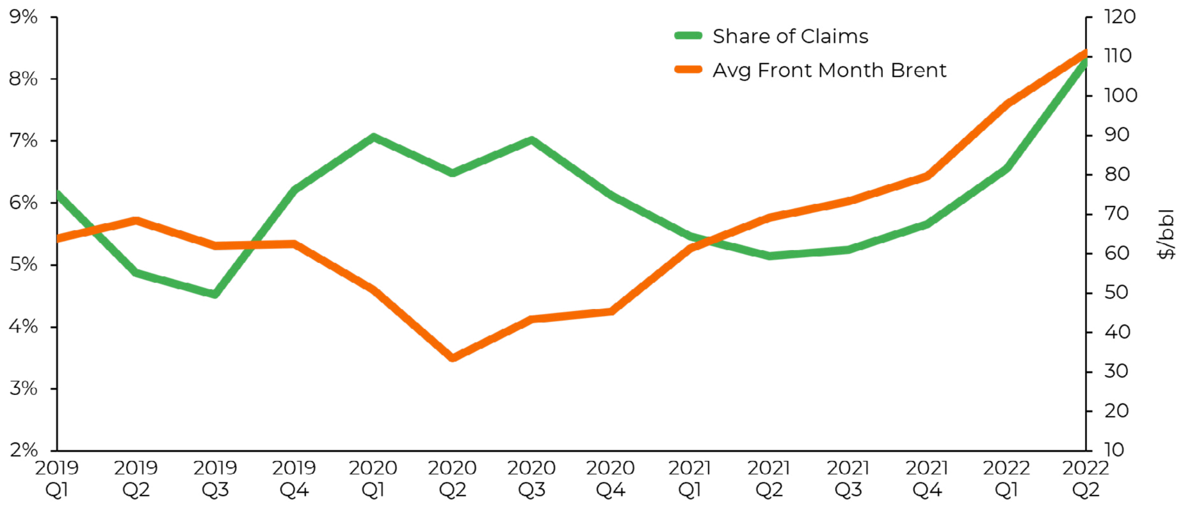


**Figure 1:** % of claims among all stems vs. Brent price

## Same claims but higher potential losses

Bunker claims can be split into three main categories: quality, quantity, and delays. There are a few other small categories but they are little dependent on the state of the market so the focus will be on these three. As seen on Figure 2, despite the overall rise in the number of claims, the share of quantity and quality claims remained relatively steady with the exception of a couple quarters.

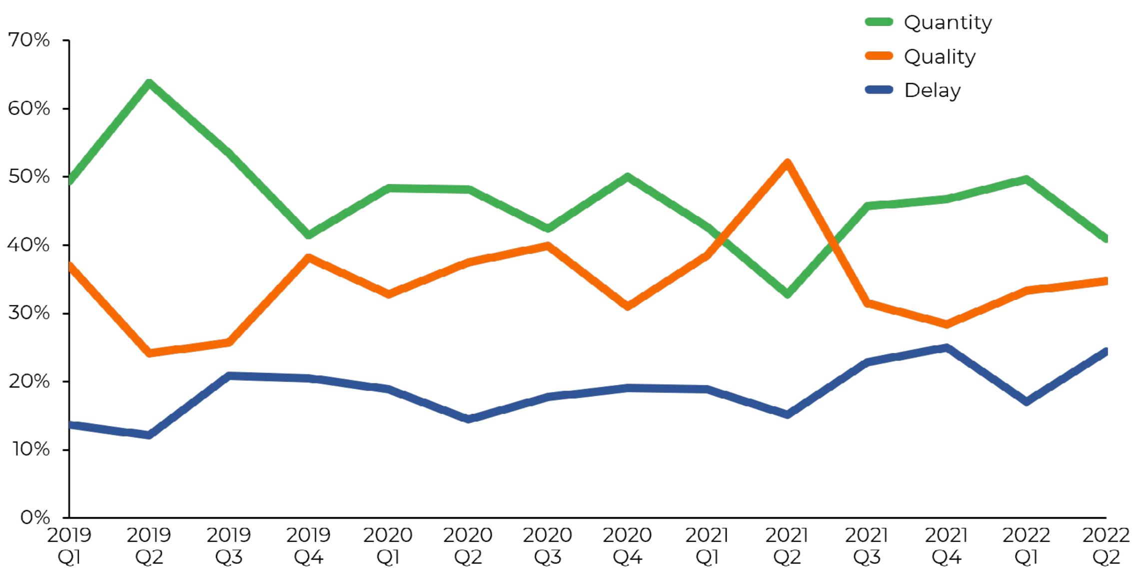


**Figure 2:** Share of bunker claims by type

## Quantity Claims

A bunker quantity claim can occur when the fuel quantity measured on board the receiving vessel after bunkering is less than the quantity mentioned in the BDN (bunker delivery note) or when the tested density is lower than the one stated in BDN. This pushes the bunker buyer to lodge a claim against the supplier for the missing quantity and hopefully recover some or all the money lost.

In Q2 2022, just over 3% of all stems resulted in a quantity claim of which the average quantity loss amounted to 2%. While the average quantity loss has recently decreased when compared with the previous years (2.7% in Q2 2021 and 3.4% in Q2 2020), and likely due to successful in-house efforts, the total potential monetary loss has increased driven up by much higher oil prices. Using the above numbers, a missing quantity of 20mt on a 1000mt VLSFO lifting in Singapore would currently add up to $20,000 in losses for the ship owner, while in Q2 2020 a 34mt quantity loss on the same stem would amount to under $10,000. Therefore, despite the average quantity loss dropping year on year, the actual monetary losses have doubled, pushing owners to lodge claims against much smaller quantity shortages than before as even a small shortage can now amount to days of lost earnings.

The share of small quantity claims up to 10mt has risen from 30% in the previous years to 45% so far in 2022 (Figure 3), as the cost of just a few metric tons of missing fuel oil can account to a significantly bigger monetary loss. There was also a noticeable increase in claims for larger 10-20mt shortages.

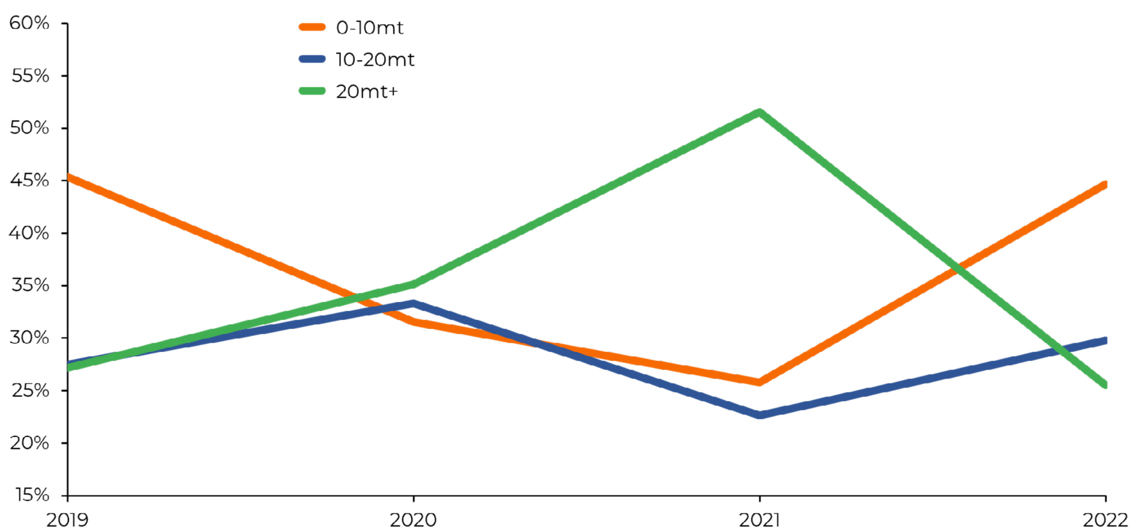


**Figure 3:** Share of quantity claims, split by the amount of quantity claiming

## Quality Claims

Quality claims can also result in effective quantity losses. For example, while the water content in fuel oil does not reduce the total quantity delivered, water (and owner's money) evaporates on combustion producing zero energy to power the ship. Density, ash, and sulphur also impact the amount of energy received from a fuel, but only water can easily make its way as a separate element into the fuel in the supply chain.

The ISO 8217 specification limit for water in most grades of fuel oil is 0.5% by volume above which the fuel is considered off-spec. While there has not yet been an increase in water off-specs, there has been a noticeable increase in water near off-specs as defined by the reproducibility range meaning that overall, there has been a higher proportion of bunker fuels with an elevated water content which are at risk of testing off-spec. Fuel quality data shows that in Q2 2022 over 7% of fuel oil tests globally (Figure 4) were near off-spec on water, which is the highest level since mid-2019 meaning the fuel oil pool now contains more water than over the past 3 years. This water does not have a value for the ship owner and yet it is paid for.

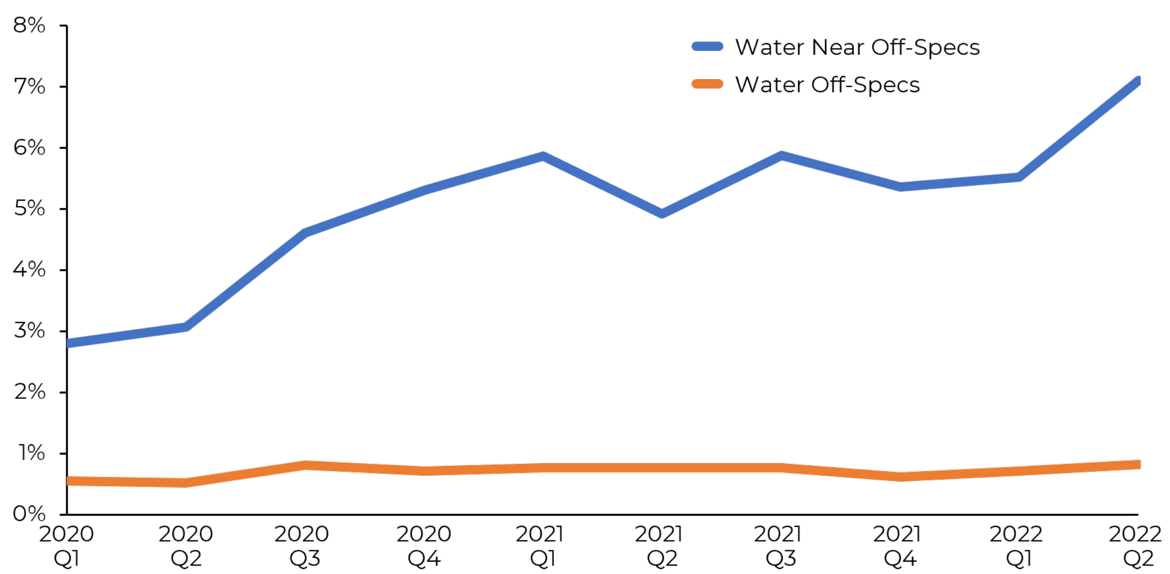


**Figure 4:** Share of water off-specs and water near off-specs

The rise in bunker prices has also coincided with an increase in VLSFO viscosity although this can theoretically have a positive effect on fuel quality. As demand recovery has been in part led by gasoil, blending components that can also be used to produce VLSFO have been re-routed from the marine fuels pool and into the gasoil blending pool attracted by higher margins there. VLSFO blenders are resorting to cheaper and heavier blending components. This resulted in an increase in VLSFO viscosity with over 40% of fuels having viscosity of above 150cst, compared with 25% back in 2020 (Figure 5).

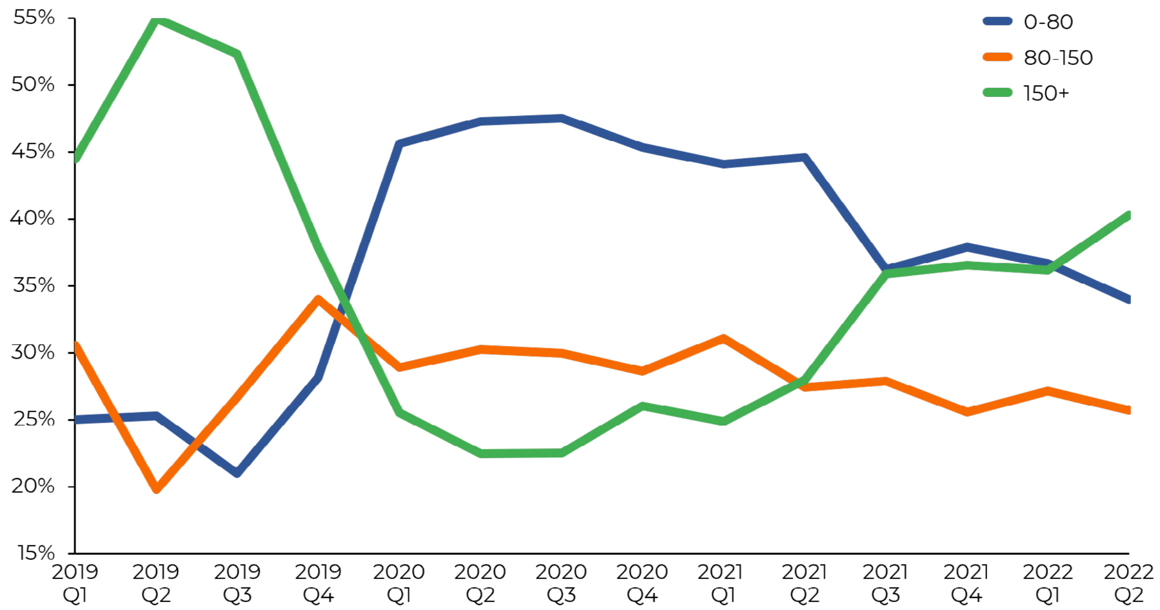


**Figure 5:** Share of tested viscosities in VLSFOs, split by test value

Low viscosity is often associated with lower quality VLSFO through potentially lower stability and an increase in viscosity could finally bring some good news for bunker buyers. However, the use of less expensive components could also lead to lower quality cutter stocks in fuel oil blending and potentially result in chemical contamination, an issue that recently hit the port of Singapore.

## Delay Claims

Lastly, with the oil markets tightening, it has become much harder for blenders to get blending components and for physical bunker suppliers to source fuel to sell. This has led to unavailability of bunker fuels for immediate delivery and generally lowered the number of suppliers with availability increasing their utilisation to 100% and beyond. With the bunker market remaining increasingly strained the likelihood of bunker deliveries not going to schedule has risen dramatically and this has resulted in more delays and claims for delays. Proportionally, delay claims rose from 15% in Q2 2021 to 22% in Q2 2022. Such claims can result in as large losses as quantity and quality claims, particularly in the high freight environment.

# Conclusion

The rise of bunker prices along with the number of claims has been difficult to overlook with an average claim amount rising sharply year on year. This rise in claims increases the pressure on the claims handling teams as well as the handling costs. With up to 50% of all claims where neither of the parties are found explicitly at fault (meaning the claim is settled on a 50/50 basis with the supplier) it is always best to try to avoid them.

One way to do this is to use select suppliers and barges. For example, even in problematic ports, where delays are common, a number of suppliers are known for managing their bunkering schedules very well without delays, while others are known for the opposite. When it comes to barges it often pays to choose the ones with mass flow meters (MFM) installed where density and quantity are calculated by the meter itself.

It is hard to predict if and when the current market tightness subsides, which will also likely have an impact on claims. On one hand oil products demand remains strong (particularly going into the summer season) and refineries are expected to increase production. On the other hand, there are worries about inflation spiralling out of control, which could cause a demand reduction. However, a number of research houses have recently increased Brent forecasts for this year to $135-140/bbl and if these prove to be true then the current situation may continue. Ship owners should stay vigilant in this increasingly complex market.

**Myrto Tzaneti**
Analyst
myrto.t@engine.online

ENGINE - Market Intelligence



ENGINE