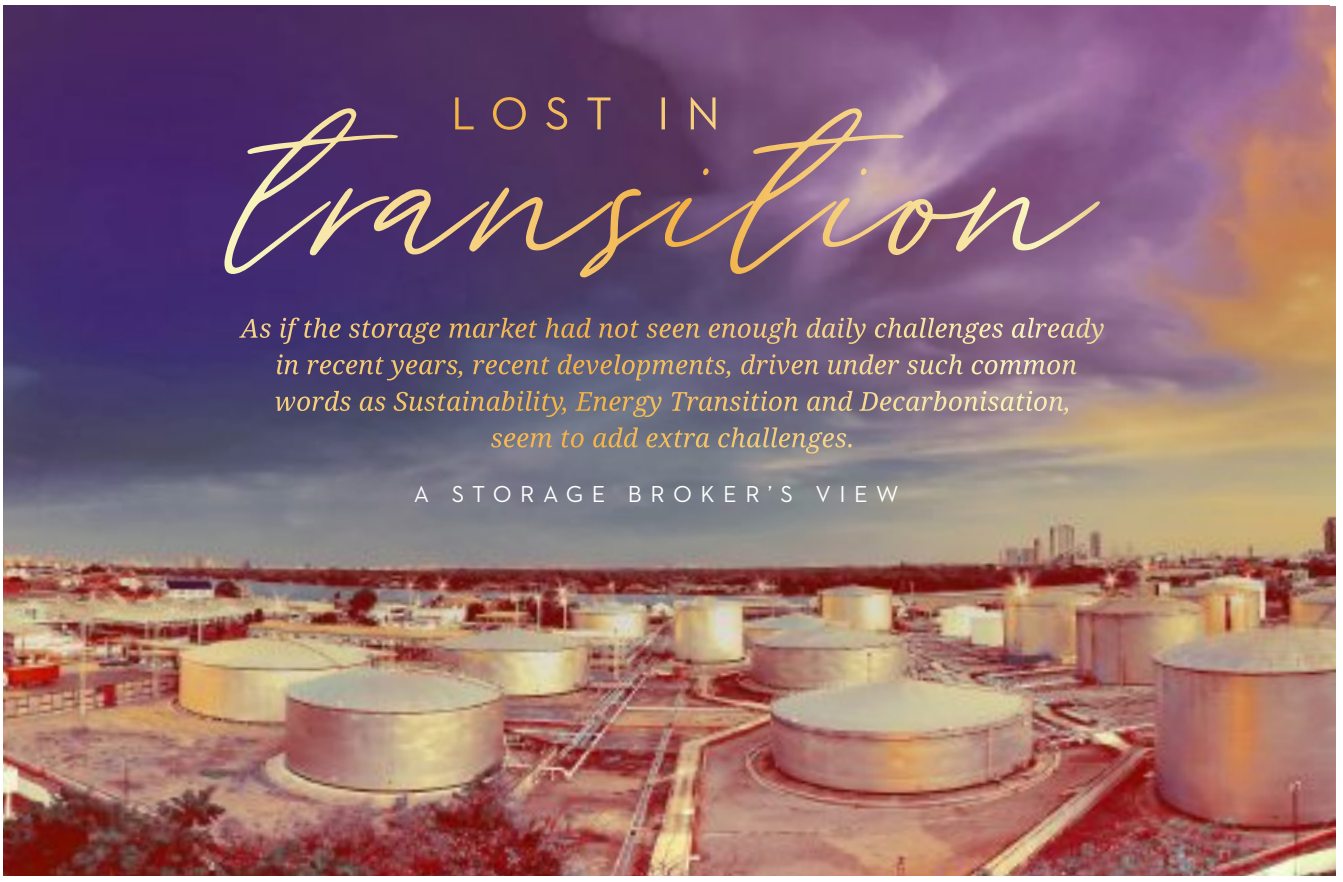

LOST IN transition

As if the storage market had not seen enough daily challenges already in recent years, recent developments, driven under such common words as Sustainability, Energy Transition and Decarbonisation, seem to add extra challenges.

A STORAGE BROKER'S VIEW

Throw in some IMO2020, and it all adds up to raising a lot more questions than answers. And it all comes together at the start of the new year.

Should we be concerned about this or will the storage market overcome these hurdles by showing flexibility and some ingenuity?

The thing is that none of these developments should come as a real surprise. The concept of sustainability has more and more driven the world economies over recent years. This catch-all buzz word, merely indicating the optimal balance between people, planet and profit, has gained status rapidly and with profound implications on the business.

It has found its way quickly into national and international legislation, hence increasing its effect on our business. As a consequence, the previously mentioned energy transition has been set in motion with a significant impact on trade balances in both fossil fuels as well as biofuels. And thus, with a similar effect on the storage market and it's free capacities.

Why is that so? Take Europe, for example, where the EU has put directives in place to enforce European countries to fulfil at least 20 percent of its total energy needs with renewables by 2020. Added to this, there is a requirement for each country to have at least 10 percent of its transport fuels from renewable sources.

Furthermore, proposed revisions for Renewable Energy Directive (REDII) set new renewable energy targets for the EU of at least 32 percent.

Biofuels and advanced biofuels, as an increasingly popular transport fuel alternative, are having an increasingly prominent place in Europe's energy transition, especially as they can also play a long-term role in decarbonising the transport sector.

So as a result, we see a growing interest and demand in the storage of FAME in all its forms: from the first generation conventional type from oil crops (rapeseed, palm, soy) to used cooking oils and the upcoming advanced biodiesels.

This increase in demand leads to a direct decrease in available and suitable storage capacities and an increase in storage rates – a simple matter of supply and demand, but leading to previously unseen double digits in the storage numbers.

A BROKER'S VIEW

On a more positive note, we see terminals making their transition to biodiesel as well as they invest in insulation and heating. Renowned trading houses and storage facilities are all expressing interest in the trade and storage of biodiesel. Terminals who do have tank capacities for these flows find themselves in the luxurious

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position that their tanks are rarely found empty.

No real surprises in the bunkering industry either where the first step on the global cap on sulphur limits (from 4.4% to the present limit 3.4%) was already made in 2011. And it is long anticipated that the IMO will enforce a new 0.5% global sulphur cap on fuel content from January 1, 2020. As the global shipping industry contributes heavily to the harmful emissions to the environment, this is IMO's push for further contribution to sustainability from the industry.

On the one hand, we find the shipowners and operators, already dealing with the existing 0.1% sulphur cap on ECA's, now having to worry about their choice in options to comply with the new rules and whether or not they can blend to their requirements.

On the other hand, we have the refiners, who are evaluating whether to produce more low-sulphur fuel to meet higher demand. In the meantime, they will not commit to how much they will be able to produce, but they have a commercial interest to cater to the market needs. There is no escaping that changes to production configuration need to be made so they can maximise margins.

FLUID UNDER PRESSURE

However, one thing is clear. There is no doubt that the 0.5% sulphur rule will have enormous implications for the global refining sector in terms of refinery configuration and operations. The unavoidable effect of that on the storage market is already noticeable, as it is a widely accepted opinion that by 2020, the price of fuel oil is expected to drop in tandem with demand.

As the increase in demand for storage of low sulphur products limits the availability, the effects on the storage market are even greater. In times of backwardation, traders don't want to be sitting on devaluated stock. So, RVB Tankstorage is helping more parties to sublease their capacities that become empty from reduced quantities of high-sulphur products.

It is said "everything becomes fluid under pressure" and that motto also flies in this case. The new challenges will lead to new solutions: there are clear signs in the market that all parties are preparing themselves for the coming changes and are protecting themselves from being hit by pending uncertainties.

In the 'sulphur' corner of the ring, some are just sticking to high sulphur, and some are already presorting for the use of MGO, while others wait for ultra-low sulphur products to be properly blended.

At the same time, bunker suppliers and tank owners alike, are switching cold turkey from high to low sulphur fuels. There is work in abundance to be done throughout all stakeholders in the industry, including surveyors and cleaning companies, for much ullage is to be made spic and span for the new tenants.

In the other corner of the ring, where the transition to biodiesel takes place, with FAME as the new game-changer in the biofuels, there is a similar effect on the storage capacities.

The effect from this on the storage market is evident: demand exceeds the supply of ullage and prices slowly, or sometimes rapidly, go up. Many traders, however, do not want to give up on their tanks, only on the content, so the name of the game these days is sublease. One could say, a contribution from the storage business to circularity and sustainability as we are re-using existing capacity.

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