ECONOMIC DOWNTURN, SHIPPING CRISIS AND ITS EFFECT ON BUNKER SUPPLIERS

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The 2008 economic downturn has undoubtedly affected shipping. Until then, ship-owners and ship-operators experienced amazing returns. Ship-owners (traditional and newcomers) had joined an ordering frenzy, particularly between 2007 and 2009, attracted by incredible freight-earnings when ore and coal capes were earning $230,000 a day and crude oil supertankers over $180,000 a day. At its peak in May 2012, BDI reached 11,793 points, compared to the 1,157 points as at May 4, 2012. Current respective earnings barely cover operating costs, while vessels are speeding at economy level in an effort to control and reduce running expenses, beginning with bunker consumption-the single largest cost-item. It is anticipated that the shipping crisis will start easing no sooner than the second half of 2013.

The shipping-industry faces many challenges as a result of the current economic climate. Oil tankers, dry-bulk and containership sectors were particularly hit during this economic, and consequent shipping crisis, due largely to tonnage oversupply; vessels ordered during good times by both traditional ship-owners, as well as new players (in many cases speculators) including potential new owners, trading and hedge funds. We also saw the spread of shipbuilding industries with more players entering the supply chain as opposed to traditional shipbuilders, with the end result being a gross imbalance between supply and aggregate demand. Prices collapsed and mortgage banks saw exposures increase dangerously at a time when non-performing loans meant tougher lending criteria. This lack of sufficient ship-financing and credit facilities, traditionally offered by banks and other finance institutions, has put further strain on the market as losses impacted shipping companies' cash-flow positions, which have now deteriorated to alarming levels. Shipping companies, after years of expansionist market practices now face relatively high operating costs that have become near impossible to cover as the freight market nears collapse and reduced profits must now be distributed across different levels of the maritime chain.

Some of the issues faced by bunker physical suppliers as a result of this environment, and consequent challenges, include the reduction of sales volumes, lower operating margins and higher credit risk. With the exception of certain marine bunker-supply hubs that are experiencing continued growth (e.g. Singapore), the physical supply market is experiencing zero growth and in many cases a moderate decline in terms of volume (metric tonnes supplied). This decrease in demand for bunkers can be attributed to factors such as reduced shipping activity and bunker consumption, with vessels opting for economy speed in an effort to optimise their voyage performance.

Not only are sales volumes lower but, since the end of 2008, operating gross-profit margins have also gradually decreased. In many cases these are down by 40-50%, depending on specific market circumstances. Physical suppliers now operate in a "buyers market"; suppliers experience added pressure from end-buyers who try to reduce the single biggest running cost of their vessels' as much as possible in effort to stay financially afloat in a severely depressed freight market. Buyers consider their options carefully before deciding where to stem. This means that suppliers are no longer competing in their respective local markets, but also externally (alternative-market competitors). Physical suppliers, in an effort to maintain their sales volumes, are offering increasingly competitive prices -reducing profit margins even further. Faced with lower profit margins and price risk resulting from market price index volatility (often reaching extreme levels), as well as the cash flow and financing difficulties of owners/operators in their own struggle to survive, physical suppliers have limited room for error. Credit risk management and its effective credit control have become increasingly important to the organisation.

The challenges faced by the industry and physical bunker-supply market are plentiful but can be answered effectively if companies were to follow a healthy growth strategy by, inter-alia, having a clear vision and setting targets and objectives, as well as a strategic plan for their implementation. The aim should be to focus on managing company functions and resources more effectively; increasing productivity by rationalising internal processes, systems and qualitative human factors. Finally, it is important to constantly re-evaluate the company's position and adjust it's strategy accordingly. Companies with the ability to adapt and maneuver in changing economic situations are best equipped to survive.

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