

COMMERCIAL PRACTICE IN BUNKERING

Nigel Draffin

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Dedication

This book is dedicated to Philip Basil Owen

I worked directly and indirectly for Phil Owen from 1977 until his retirement in 1994. He was the Shell LNG fleet manager in Japan when I served on LNG ships, the manager of new construction when I worked on new ships at the shipyards, manager of research when I worked on ship efficiency and fuel systems research projects, and the manager of commercial shipping when I was the bunker buyer for the Shell fleet.

When I moved into the commercial shipping section, he said he thought it was about time we had more engineers working there (he brought in three of us). He demonstrated the reality of the guidance we were given at college – ‘A marine engineer can do anything’.

Nigel Draffin



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by

Nigel Draffin

First Edition

Foreword by
Goris Vermeulen

Co-owner of independent Dutch bunker supplier Frisol b.v. (1989-2003)
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Former Vice President of Dutch energy association, NOVE
Founder of *BunkerExperience* and regular lecturer on bunkering issues

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Foreword

It is often easy to forget that the bunker industry as we know it today is still relatively new, having begun in earnest in the mid-1970s as a direct result of what was to be known as the first oil crisis. It was then, in 1973, that the oil majors first took a step back from the market, leaving a narrow gap through which a small number of independent oil traders managed to slip.

As oil prices surged and the risks became greater, opportunities for the new traders to take advantage of the gaps in the market started to come thick and fast. Soon, a whole new community of oil suppliers and traders was created in previously major oil company-dominated markets such as Rotterdam and Houston.

As the old practices started to change, with long-term contracts with the majors rapidly being replaced with spot deals between the fledgling suppliers and traders and the end-customers, the bunker industry began to take shape. London and New York shipbrokers developed bunkering departments which, as their employees recognised the opportunities available to them, led to the creation of independent bunker brokers. As the Asian markets began to grow, Singapore gradually assumed the dominant role in the region, while the Iran-Iraq war gave rise to the creation of the Fujairah market.

Throughout this process, the shipping industry has alternated between years of feast and years of famine; oil prices have soared, collapsed and soared again; the oil majors have dominated the market, withdrawn, returned and retrenched; and all the while, the bunkering community has found the ways and means to conduct business and – by and large – remain afloat. But this is an ever-changing business and may look very different in the years ahead.

As the new breed of bunker suppliers and traders has developed into a band of better-educated, experienced and well-connected professionals, their commitment to the industry has grown too.

Throughout this tumultuous period, there has been one constant in the marketplace, and that is Nigel Draffin. He started in shipping long before the first oil crisis and has seen it all. He has served at sea on tankers and gas carriers, worked for many years as a bunker buyer for Shell, and has worked as a bunker broker for Gibsons and LQM. During this time, Nigel has not only forgotten more about bunkering than most people will learn in their lifetimes, but he has striven to share this information with anyone who wishes to learn, not only through his growing list of bunker books but also through his teaching activities.

It is great to see that Nigel has now committed to writing about his knowledge and experience of the commercial issues in bunkering. This book will be of great value to anyone who is involved in buying or selling bunker fuels, or supplying the banking, credit, agency or other services to those in the marketplace. It will be of particular interest to newcomers to the industry but also especially helpful to those who have experience in some areas but need to refresh their knowledge of others.

For a quarter of a century, Nigel has left no stone unturned in his quest to improve his own knowledge of the bunker industry and to share what he has learned with others. On a personal note, I truly admire his enthusiasm and dedication to the industry and admit that he is now, without question, a bunkering legend.

I thoroughly commend *Commercial Practice in Bunkering* and wish Nigel the greatest success with his book.

Goris Vermeulen

Co-owner of independent Dutch bunker supplier Frisol b.v. (1989-2003)

Founding member of the International Bunker Industry Association

Former Vice President of Dutch energy association, NOVE

Founder of *BunkerExperience* and regular lecturer on bunkering issues

May 2011

Preface

After fighting my way through three books on bunkers, I advised Llewellyn that I would like to turn my attention to a history of the industry. His reply was simple: 'You can't, no one has written about the commercial side of the business yet!'

He was correct, and comments from delegates on various courses who kept asking for a commercial textbook encouraged me to write this one. I had planned a short book that covered the commercial issues affecting buyers, brokers, traders and suppliers of bunkers. It has turned out a little longer than I intended but I hope that the index will help people to find what they want.

This book is based on my own experience, the advice and training I have been given during my career and the constructive help of many friends and colleagues in the industry.

As is always the case, I have had to decide what to include and what to leave out, and I apologise in advance if readers feel I have omitted any topic which they had hoped to find covered. Please let me know and, if a second edition is published, I will endeavour to remedy any significant omissions. If readers need further operational or technical information then I refer them to my other books or some of the sources listed in 'where to go next'.

I have no academic background in commerce, banking, the law or marketing so I have consulted widely to ensure that the book is factually correct. Any errors are, however, all of my own making.

I hope that this book will help people working in all sectors of the industry to understand the commercial factors which influence the behaviour of their counterparties and will help those at the start of their careers to understand what it is all about.

I have learned a lot of new things about our industry whilst researching different sections of the book – this just reinforces my belief that the secret of success is to be curious, ask questions and never feel that you can stop learning.

Nigel Draffin

May 2011

About the author

Nigel Draffin's reputation as a teacher and as a writer is boosted still further with the publication of *Commercial Practice in Bunkering*, his fourth specialist title on the marine fuels industry and another very valuable addition to the growing library of books on bunkering.

Nigel has been involved in shipping for over 45 years and with the commercial bunker market for over 25 years. After joining Shell Tankers as an apprentice engineer in 1966, he progressed through the ranks, serving on all classes of vessel, including very large crude carriers (VLCCs) and liquefied natural gas (LNG) tankers.

He came ashore in 1979 to join the newbuilding department of Shell International Marine. After two years of new construction in Ireland, South Korea and the Netherlands, he transferred to Shell's Research & Development unit, specialising in control systems, fuel combustion and safety systems.

In 1986, Nigel moved to the commercial department as a bunker buyer and economics analyst. In 1988, he was promoted to be Head of Operational Economics, responsible for all of the fuel purchased for the Shell fleet, the operation of the risk management policy and the speed / performance of the owned fleet. In March 1996, he joined the staff of E.A.Gibson Shipbrokers Ltd in the bunker department, and became the manager. In 2006, this department merged with US-based broking house LQM Petroleum Services, where Nigel is currently Senior Broker and Technical Manager.

Nigel is a founder member of the International Bunker Industry Association (IBIA) and has served several times on its council of management and executive board. In April 2011, he was elected Vice Chairman (Chairman Elect) and is a member of the Education Working Group. He is also the author of IBIA's *Basic Bunkering Course*. He is the Technical Director of the *Oxford Bunker Course* and Director of the *Oxford Bunker Course (Advanced)*. Nigel is a member of the Institute of Marine Engineering Science and Technology and Past Master of the Worshipful Company of Fuellers.

Nigel's previous books have been sold all over the world and continue to contribute enormously to the knowledge and understanding of hundreds of newcomers to the industry. His first book, *An Introduction to Bunkering* (2008), provides a comprehensive entry-level introduction to bunkering, offering newcomers bite-sized pieces of key information in a format 'packed with useful and relevant data, practical illustrations and enough pictures to help anyone understand exactly what bunkering is all about'.

His second book, *An Introduction to Fuel Analysis* (2009), taps into a growing thirst for information on bunker quality issues. It provides a reference for those who need to understand the terminology and the reporting used in fuel analysis.

Nigel's third title, *An Introduction to Bunker Operations* (2010), is filled with photographs and graphics designed to help the reader visualise important aspects of bunker operations, from choosing the right flanges, hoses and samplers, to handling

barges, pipelines, road tankers and storage tanks. His latest book, *Commercial Practice in Bunkering*, concentrates on the buyer and the seller and the contract between them, and takes the reader to a higher level of understanding of this uniquely global industry.

Llewellyn Bankes-Hughes
Managing Director
Petrospot Limited

May 2011



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The team at Petrosport have worked really hard to produce a book that is well laid out and easy to use. I cannot overestimate the effort Alison Cutler and Lesley Bankes-Hughes put in to layout and proof-reading.

Angus Ogilvie has been my sounding board throughout. His experience in broking and trading and his constant help and encouragement have been significant factors in the quality of the information.

Gerry van Geysel gave me help and encouragement and, based on his very many years in broking, identified issues which needed explanation.

There are many others who helped, too many to be named here, but without their help this book would never have appeared.

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