



Change in Bunkering Activity – Red Sea Attacks on Commercial Shipping

June 2024

The continued attacks on commercial shipping in the Red Sea have impacted the overall size and patterns of global bunker demand. In simplest terms increased distances travelled and increased speeds have added somewhere between 800,000 and 1,000,000 metric tons per month to global bunker demand. The bunker supply industry has faced two challenges to increase overall supply volumes and to adjust location of bunker supply to reflect differing demand patterns.

Increases in bunkering activity, well outside normal fluctuations, continue to be seen at ports on the African coastline, offshore Africa and Islands close to the Africa Continent. A predictable decrease in bunkering activity has been seen in supply ports of the Eastern Mediterranean. Further significant demand increases are felt at Asian ports (particularly) Singapore, European ports (particularly ARA (Amsterdam, Rotterdam and Antwerp) and Algeciras) and even at New York on the US East Coast.

Overall, the bunker supply industry has been able to both add volume and absorb these shifts in demand although this has not been without its challenges. Ports needed to quickly increase supply with uncertainty over future demand and notably as South Africa market has had deal with specific localized supply challenges.

This report summarises feedback from various industry sources, focusing on the magnitude of bunker sales, the ability to quantify these changes, supply challenges, and future demand expectations:

1. Impact on bunker demand:

a. Africa

- i. **Mauritius (Port Louis):** The strategic position of Mauritius makes the island an important bunkering location. Demand for bunkers for most of 2023 was approximately 30,000 metric tons per month which has now increased in Q1 2024 to 60,000 to 65,000 metric tons per month.
- ii. **Mozambique: Maputo, Nacala and offshore Mozambique Channel:** Bunker volumes in these locations were limited for most of 2023 but have now anecdotally significantly increased.
- iii. **South Africa:** For the majority of 2023 South African bunker volumes were approximately 130,000 metric tons per month. In the crucial period of Q1 2024 this volume has unfortunately dropped to 80,000 metric tons as explained below.
 - **Durban and Richards Bay:** Traditionally were significant bunker locations on South African Coast but impacted by local refinery closures. Limited ability to increase volume.

- **Algoa Bay:** Supplied between 60,000 to 70,000 metric tons per month until Q4 2023 when supply was shut down because of tax and licensing dispute with South African authorities. This supply location remains inactive and is a major loss for South African bunker supply options.
 - **Cape Town:** 2023, limited supply from Astron Refinery. Demand in 2024 for bunkers supply in Cape Town has increased to approximately 40,000 metric tons per month. With a surplus.
- iv. **Namibia:** Walvis Bay was a low to medium volume supply location in 2023 with demand reportedly doubling by Q1 2024
 - v. **West African (WAF) Offshore Supply:** Significant volumes of bunkers are supplied in lightering locations off major West African ports. These locations are not ideally suited for ships diverting around Africa. Early 2023 bunker volumes were approximately 210,000 metric tons per month, Q1 2024 closer to 250,000 metric tons.
- b. Europe:**
- i. **Canary Islands (Spain):** Strategically located off the coast of Africa the Canary Islands has seen bunker demand increase from 315,000 metric tons per month in early 2023 to 370,000 metric tons per month in Q1 2024
 - ii. **Algeciras (Spain):** 2023 demand increased from 270,000 metric tons per month to 300,000 metric tons per month in Q1 2024. However, the western Mediterranean is largely unchanged in demand as ports such as Gibraltar have lost some demand.
 - iii. **Eastern Mediterranean:** Reportedly, demand is down in all locations but limited hard statistical data is available to support this conclusion.
 - iv. **ARA (Amsterdam, Rotterdam and Antwerp):** Demand has risen from 1.45 million metric tons in 2023 to 1.58 million metric tons in Q1 2024.
- c. North America**
- i. **New York:** Demand has risen from 350,000 metric tons per month in 2023 to 400,000 metric tons per month in Q1 2024 due to container services usually transiting the Mediterranean not diverting around Africa.
- d. Asia**
- i. **Singapore:** Demand has risen from 4.23 million metric tons per month in 2023 to 4.62 million metric tons per month in Q1 2024. Singapore has absorbed 40% of the increased demand created by the Red Sea crisis.

2. Impact on Bunker Prices

The factors determining bunker prices in regional or individual supply ports over a period time are highly complex. While there is always a relation between the underlying commodity price, in this case crude oil, and the bunker price (VLSFO, HSFO or MGO) there are multiple influences of supply and demand overlayed with geopolitics and shifting economic patterns that influence this relationship. Some of this complexity can be seen the below graphical representation below of VLSFO (Very Low Sulphur Fuel Oil – largest grade of bunker fuel globally) prices in many of the supply locations highlighted above during the period Q1 2023 to Q1 2024 and obtained from data provided by industry publication Ship&Bunker.

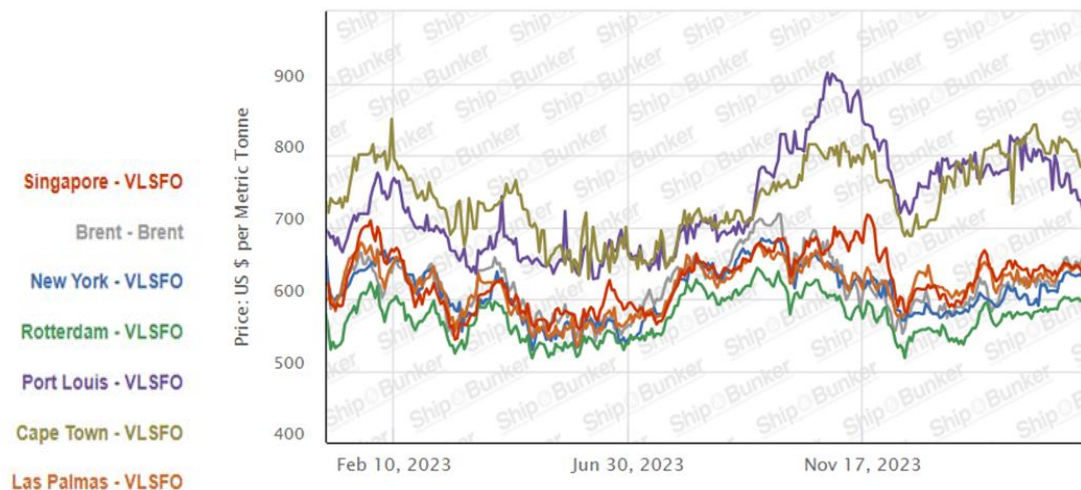


Figure 1: Impacted VLSFO Prices - Q1 2023 to Q1 2024

The Brent crude oil benchmark sits at the centre of these prices and it can be seen that some locations trade significantly below or above the Brent benchmark. This graph is quite confusing but looking at the information on a more granular level the below tabulation comparing the first three quarters of 2023 (pre Red Sea crisis) and the last quarter and first quarter of 2023 and 2024 respectively provides some important price data.

	Q1-Q3 2023		Q4-Q1 2023-24	
	VLSFO	VLSFO VS BRENT	VLSFO	VLSFO VS BRENT
Brent (Crude)	\$ 616.50	\$ -	\$ 620.00	\$ -
Singapore	\$ 614.00	\$ (2.50)	\$ 644.50	\$ 24.50
Mauritius	\$ 688.50	\$ 72.00	\$ 802.00	\$ 182.00
Cape Town	\$ 716.00	\$ 99.50	\$ 781.00	\$ 161.00
Las Palmas(CI)	\$ 609.00	\$ (7.50)	\$ 629.00	\$ 9.00
Rotterdam	\$ 572.50	\$ (44.00)	\$ 579.00	\$ (41.00)
New York	\$ 608.00	\$ (8.50)	\$ 612.00	\$ (8.00)

Figure 2: Pre and Post Red Sea Crisis - Price Comparisons Against Brent Benchmark

Ports impacted by higher demand have suffered different price impacts. Rotterdam (representing the ARA) and New York have maintained their relationship to the price of Brent. Significantly, the ports of Singapore and Las Palmas (Canary Islands) have risen against the price of Brent as they have adsorbed extra bunker demand. This impact is seen with greater magnitude with Mauritius (Port Louis) and Cape Town that have seen a vastly increased premium to Brent of \$110 metric ton and \$61.50 per metric ton respectively.

The conclusion is that prices paid by ship owners and charterers for bunkers relative to the Brent benchmark have risen as a result of Red Sea activity. This cost is much more significant for those who must bunker on or around the African continent.

3. Future Demand Expectations

Current demand patterns (and pricing relationships) have maintained themselves, as far as available data is concerned, through Q2 of 2024.

Bunker suppliers generally consider that the current Red Sea situation and changes in demand patterns will maintain themselves for the foreseeable future and so have made the necessary short to medium term adjustments and investments to their businesses. In most locations this involves the deployment of additional delivery barges and additional floating or land-based storage. Few suppliers are willing to consider long term investment decisions based on the current circumstances. Higher prices are justified by suppliers as necessary to source or attract additional supply and to pay for deployment of barge or storage assets.

Bunker buyers trading in routes impacted by the Red Sea crisis have adjusted to the new normal with vessels travelling increased distances and at higher speeds. Their demand patterns are very unlikely to alter unless a significant alternative supply location (such as the possible return of Algoa Bay in South Africa) becomes an option and so will remain consistent through 2024. Higher prices at certain ports have been absorbed into operating costs or passed on to charterers and cargo owners.

4. Conclusions

The Red Sea crisis that developed in Q4 of 2023 has caused some significant and continuing shifts in both demand patterns and pricing. The existing fossil fuel based bunker supply industry and the buyers of bunkers have a well-proven and cooperative ability to adjust to supply and price disruptions whether created by regulation, geopolitical tensions or natural occurrences. These adjustments are at times challenging and can be damaging or beneficial to different supply locations. Prices will rise, perhaps to modify over time, but shifts in demand will be recognised and covered. The energy transition within shipping provides potentially more significant challenges in that new lower GHG fuels will at first only be available in limited ports and smaller volumes. Geopolitical disruption may be more challenging to the future bunker supply chain.