

Bunker Fuel Supply and Storage Market Summary

Historically, the San Pedro Bay bunker fuel market has been supplied by a mix of traders and local, state and international oil refiners. Traders have operated both as separate entities and as separate business units within larger oil refiner operations. The bunker fuel market in the San Pedro Bay has become less lucrative and more restrictive in recent years due to overall reduced volumes related to the economy, low emission fuel regulations, and competitive options in other countries. The primary-market sources have been reduced to one international refiner, one domestic refiner that supplies the market with its own refined bunker fuel and fuel purchased through an internal trading group, and a trader that operates their own marine terminal in the Port of Long Beach.

The remaining traders have only been able to remain because of the value added to their operation by refining or logistics. Recently a large domestic refiner, which historically supplied the local market through a mix of its own refined fuel and fuel bought through an internal trading group, stopped producing its own bunker fuel, but continued trading activities. Relatively soon thereafter, their internal trading group stopped supplying the local market because the standalone trading business was not profitable enough in comparison to other capital investment opportunities. Based on input from market participants, the viability of these trading operations is at risk. Significant upward pressure on storage rates could cause fuel supply movement to other bunker fuel markets with lower logistics costs. The current market contraction, which is partially tied to larger economic trends, would likely reverse course with sustained and substantial economic growth. A positive economic shift will provide added opportunities for suppliers and the bunker storage market. However, the current market volatility and limited profit margins have left the San Pedro Bay with a historically small pool of bunker fuel suppliers, which continues to put downward pressure on storage rates.

The bunker fuel market is highly competitive and global in reach. Recent increases in ship size and fuel capacity has created more flexible fueling options and increased competitiveness in the bunker fuel market. Fuel costs make up approximately 60 percent of total operating costs for shipping lines, which makes fueling logistics the primary financial concern for ship operators. A typical container ship with a fuel capacity of 15,000 tons burns on average of 200 to 350 tons per day depending on the size of the vessel and average speed. Maximum fuel capacity provides for 43 to 75 days at sea without refueling. However, ships typically take smaller quantities of fuel, around 8,000 tons, to minimize fuel weight drag. This is made possible by plentiful and competitive fueling opportunities in most major ports. A round trip voyage from Asia to the U.S. West Coast generally consists of six to eight stops and lasts approximately 40 days, with bunker fuel options available in four to five of their stops. With the widespread implementation of slow steaming and increasing ship sizes and cruising ranges providing increased flexibility to make longer trips without receiving fuel, the bunker fuel market continues to become more competitive and globalized. In this transient and high volume industry, per barrel profit margins are constantly under pressure. Small shifts in logistics (storage and delivery) or supply costs can significantly reduce market opportunities and cause immediate and permanent shifts in fuel supplier activity.

According to various market participants, San Pedro Bay bunker fuel and storage rates are already at or near the highest level in the transpacific trade route. Any significant pressure on these rates could have significant adverse effects as demonstrated in 1992 and 2003 when the State of California imposed a tax on bunker fuel. In 1992 and 2003, the State of California removed a sales and use tax exemption historically provided for bunker fuel. The increase in fuel cost amounted to a 7.25 percent increase in both years. In those years, bunker activities immediately declined by approximately 45 percent, and pressure from the shipping industry and affected ports resulted in legislative action to reinstate the tax exemption.

Similar volatility exists in the bunker fuel storage market. Bunker fuel is not currently produced by local refiners, and currently only two refiners, one international and one domestic, routinely supply the local market. Both of these suppliers actively participate in other bunker fuel markets in the transpacific and could decide to move their fuel to other markets entirely, if storage prices in the San Pedro Bay become uncompetitive.

The San Pedro Bay bunker fuel market would suffer significant supply shortages if Vopak's capacity was removed, which would result in limiting bunker fuel logistics options for shipping lines. Maintaining a healthy and competitive bunker fuel supply market is not a strict requirement for the San Pedro Bay port operations given the range of vessels and other fueling options. However, the current fueling logistic options are highly desirable to provide the most flexibility to shipping lines calling in the San Pedro Bay and is one of many factors that contribute to the Port's status as a premier global gateway. Reducing large-scale bunker storage operations to one terminal in the Port of Long Beach that does not provide access to other bunker suppliers would significantly restrict the current market. This would likely increase the price of local bunker fuel and make it uncompetitive for routine fueling, which would already have been limited through lack of storage capacity. With a significant reduction in bunkering activities, jobs directly and indirectly involved in providing bunker storage and delivery logistics would also be lost.