

BUNKERSPOT

RESPONSE MECHANISM

MAKING SENSE OF A
NEW WORLD ORDER

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Home truths

As recent global political events have shown, a willingness to believe in 'post-truths' can serve to obfuscate the facts. In his postscript to post-truth, Steve Simms of Simms Showers also uncovers some of the common 'fallacies' that persist in shipping and the bunker industry

Each year the Oxford Dictionaries, a foremost authority on English language usage, designates a 'Word of the Year'. Katherine Martin, the head of US dictionaries for Oxford University Press, explains that 'we choose words that are going to highlight the interplay between our words and our culture.' The chosen Word of the Year is meant to be one that captures the 'ethos, mood or preoccupations of that particular year and to have lasting potential as a word of cultural significance.'

2016 brought the US presidential election of Donald Trump, which followed the United Kingdom's vote for 'Brexit'. Observers say that these and similar world events confirm that facts are no longer important or relevant. Donald Trump ran on the slogan, 'Make America Great Again'. The slogan overlooks the fact that the US \$18.5 trillion nominal gross domestic product (GDP) currently remains (at 24.5% of the world total) the world's greatest.

So, 'post-truth' is 2016's Word of the Year. It is an adjective which the Oxford Dictionaries define as:

Relating to or denoting circumstances in which objective facts are less influential in shaping public opinion than appeals to emotion and personal belief:

'in this era of post-truth politics, it's easy to cherry-pick data and come to whatever conclusion you desire'

'some commentators have observed that we are living in a post-truth age.'

To best understand the significance of the word, focus on 'post', the prefix in

'post-truth'. Oxford Dictionaries explain that 'post', in its use as part of the Word of the Year, 'has a meaning more like "belonging to a time in which the specified concept has become unimportant or irrelevant."'

At least in the recent view of the Oxford Dictionaries, truth became for many 'unimportant or irrelevant' by 2016 and it potentially will be so in the future.

How could truth become 'unimportant or irrelevant'? The United States specifically, and much of the world also, increasingly has 'disappearing gatekeepers' of truth. Those gatekeepers were, for example, a limited number of respected news media, scientific, engineering or cultural authorities.

However, now, according to a 2016 Pew Research Center Poll, nearly two-thirds of US adults obtain much of their news first from social media, and a fifth do so exclusively. While before, one had to pass through a 'gatekeeper' print publisher to be considered a source of facts, now anyone can publish on Facebook, Reddit, Twitter, WhatsApp, or other electronic media.

Content now takes any shape – a video, a chart, an animation – and frequently lacks the context that would explain it. Individuals with shared interest easily sit in physical isolation behind their electronic devices to gather virtually around one information source. Virtual groups gathered electronically conveniently shut out contradictory information, feed their emotions and strengthen their own beliefs. Factual truth to these groups becomes unimportant or irrelevant. Electronically-shared emotion or personal belief becomes

the most relevant and important 'truth'.

For example, in the United States there is a present 'post-truth' belief that crime rates are higher than ever. In fact, the actual crime figures show a significant crime rate drop in the last five years. Depending on which US presidential candidate one followed recently, there is a present 'post-truth' belief that there was widespread voter fraud. The facts don't support this, but emotions and personal belief override the facts, making them unimportant or irrelevant.

Our bunkering industry is not immune to 'post-truths'. Why and how can this be?

Gatekeepers are also increasingly missing from the bunkering industry, as we rely on electronic information sources; increasingly absent are the personal relationships and direct contacts that historically have been the bunkering industry's foundation.

Mixing post-truth with bunkering, though, leads to problems. Regardless of how one might feel about off-spec fuel, accurate testing presents the fact that a fuel is on- or off-spec. Regardless of how you feel about whether you will be paid and whether your counter-party will pay you, the payment either arrives or it doesn't.

The last three years have included a number of 'post-truth' challenges to our industry.

Low margins

Truth: Crude prices fell from about \$120 per barrel (p/b) in 2014 to about \$45 in 2015. But, not long before 2014, crude prices also had been at \$45 p/b, or lower, in present dollars. Yet despite the historical fact of wide crude price fluctuations, many have been surprised that the most recent fluctuation occurred.

Emotion or belief: Of course, many in the industry want to believe that oil will return to above \$60/barrel; that it simply can't stay at a low price for much longer.

So, this might lead some to consider that it is irrelevant or unimportant that OPEC members are presently boosting production, that according to International Energy Agency (IEA) data released in January 2017 US stockpiles are, at 483.1 million barrels, the highest seasonal level in more than three decades, and that Russian production also is increasing with OPEC increases.

Bunkerspot recently reported the following (21 December 2016, 'Shipping confidence continues to grow'):

'This is the third successive increase in shipping confidence recorded by our survey. So, despite overtonnaging, weak freight rates, declining demand, insufficient recycling, Brexit, Syria, Trump, de-

spite everything, shipping is still looking up, rather than down,' commented Richard Greiner, Moore Stephens Partner, shipping & transport.

'This is not to deny the reality of today's difficult market, or the sluggish economic climate. But it does say much for the strength of shipping's backbone and the quality of its mettle.'

Greiner added: 'Many of our respondents felt that things can only get better. They are probably right. But for that to happen, freight rates will have to go up.'

Read the quote and find one fact which shows that 'things can only get better'. Specifically, find one fact showing that freight rates will increase. The emotion and belief is that things have to get better, but no facts are cited to support that.

This doesn't mean that there aren't supporting facts. There may be. But the focus goes first to emotion or belief, then perhaps to the facts (although unimportant) consistent with that, but not first to the facts to inform the belief.

Overcapacity

Truth: Container and bulk markets have significant overcapacity. There are a record number of container and bulk vessels idled around the world and that number is a fact. There are too many vessels to scrap and to have any acceptable return for owners.

Emotion or Belief: Industry emotion or belief is that despite this truth of overcapacity, freight rates and fuel prices will rise because of increased fuel demanded (independent of demand for low sulphur fuel needed to meet the 2020 global 0.5% sulphur mandate) by greater numbers of vessels. No amount of emotion or belief, though, will put surplus vessels back into service.

The fact is that overall vessel capacity must decrease to support increased freight rates, but this may decrease rather than increase fuel demand.

The OW Bunker insolvency

Truth: The 2014 collapse of OW Bunker, the world's third largest bunker trader, began six or more months before OW's formal November 2014 insolvency filing. Those looking at the facts in 2014 saw this coming. OW's finances significantly depended on margins on higher priced oil, but oil prices dropped steadily, beginning in the first quarter of 2014. Attempting to keep margins low to be competitive, OW could not maintain solvency as prices dropped. The OW insolvency has left world-wide litigation that will continue for some years to come. The insolvency con-

firmed that established, skilled and deliberate counterparties matter.

Emotion or belief: Many believed that because OW was doing business with so many traders and suppliers, that despite the fact of low margins and falling prices, somehow, selling to OW still involved acceptable risk. This emotion or belief overrode the fact that anyone 'downstream' of the ultimate OW entity selling the product was likely unsecured. For some, it also overrode factual credit, including legal analysis. Many overlooked that their sales terms didn't provide the security that they felt they had (although they hadn't read the terms for some time, and hadn't read OW's), or didn't believe that they would ever have to draw on the sales terms.

Despite OW, this 'post-truth' emotion or belief, rather than taking lessons from the facts of the OW collapse, still prevails among some in the industry. A surprising number of suppliers and traders still rely for their leading credit extension factors on how much the Internet mentions their counterparty instead of looking to solid facts about the counterparty's financial situation. Revision of legally inadequate sales terms continues to be irrelevant or unimportant in the face of the emotion or belief that an OW insolvency situation can't happen again.

Hanjin

Truth: Hanjin's liquidation confirms the fact that unprofitable customers dependent on government subsidy can lose that and fail quickly. This is regardless of size or even apparent importance to the government providing the subsidy.

Emotion or belief: That despite the arrest of a Hanjin vessel in May, 2016 for breach of charter party, and despite repeated warnings from the South Korean government that the government wouldn't extend subsidies, Hanjin's collapse possibly couldn't happen. This post-truth notion continues as Hanjin is liquidated. And a number of container carriers continue to lose extraordinary amounts of money in a market with continued overcapacity, surviving only because of increasing government subsidies. Industry post-truth thinking makes irrelevant and unimportant that a Hanjin situation is likely to happen again. It keeps some from the fact that what is needed now is insolvency planning, improved sales terms and improved credit policy to prepare for the next, inevitable liner insolvency.

The 2020 global 0.5% sulphur cap

Truth: According to a recent UBS study, to achieve 2020 0.5% sulphur fuel content compliance, 74% of shipowners will use 0.5% low sulphur fuel, 19% will install scrubbers and

continue to use heavy fuel oil (HFO), and 5% will switch to LNG.

Emotion or Belief: Some argue that the bunker industry now has fallen in line with the post-truth thinking bringing about the 2020 0.5% cap in the first place. The emotion or belief is that pollution from marine sources was an overwhelming source of world wide pollution, and that the fueling and marine industries must (and because they must, will) meet the 0.5% sulphur limit by 2020.

Post-truth emotion and belief also leads thinking that there will be enough good quality compliant fuel to meet the standards; that port state enforcement will never reach suppliers selling non-compliant fuel; and that assuring compliance will continue to be entirely up to customers and not to the traders or suppliers selling to them.

But, the fact is that there are many marine and petroleum industry changes needed before there can be uniform 2020 0.5% compliance. Refining capacity needs to increase to meet low sulphur fuel oil demand. Capacity for manufacturing scrubbers and installing them may also be currently below that needed to meet a potential demand for scrubbers.

Investment in infrastructure for LNG fueling, considering the relatively few vessels currently using LNG, also is likely to be limited to certain areas such as the Northern European, US/Canada West Coast, and Caribbean emission control areas (ECAs), despite the otherwise attractive qualities of LNG. LNG use also still produces nitrogen oxide (NOx), which is the growing, next focus of environmental regulators after sulphur content.

If effective 0.5% sulphur regulatory enforcement is to take place, the fact also is that it will be by port States. It also makes sense that those port States will focus not only on consumers of non-compliant fuel but also on the traders and suppliers who provided the fuel in the first place. Regulators may find that traders and suppliers are more direct (and lucrative) enforcement targets than the customers.

Cyber crime

Truth: The bunker industry (and marine industry generally) increasingly is victim to sophisticated insider cybercrime. The value of product bought and paid for exclusively through electronic means, without rigorous cybersecurity safeguards, make the bunker industry a ripe target for cyber criminals. Many under-publicised but significant cyber thefts already have occurred in the industry.

Emotion or Belief: Post-truth thinking still makes the fact of cybercrime unimportant or irrelevant. Fundamentally, many believe that cybercrime is something that might

happen to someone else but not them. The emotion is that the bunkering industry is too obscure to be a target, or that cyber security must take a lower priority to other pressing challenges (such as making the next big trade). Belief overriding fact also is that cyber security is at most the responsibility of the company IT department/provider, and not of each director, manager, trader and employee.

Sanctions

Truth: That the United States can impose Iran sanctions immediately. For Iran, the 'snap-back' provision of the Joint Comprehensive Plan of Action (JCPOA) permits the re-imposition of US sanctions against Iran within 30 days after a determination that Iran has breached the JCPOA. Re-imposition of sanctions will block all ongoing transactions.

Emotion or Belief: That because Iran sanctions are multilateral, the United States will not re-impose them entirely, and that Iranian crude will continue to be available, including at attractive prices. No amount of feeling or belief, however, has stopped what already has been the fact of the Trump administration's instant imposition of some sanctions against Iran.

Protectionism

Truth: The fact, confirmed hours after President Trump took office with the cancellation of the Trans-Pacific Partnership, is that the Trump administration will focus on control of national borders, including restrictions on US jobs and immigration. Multilateral trade agreements will give way to bilateral agreements.

Emotion or belief: That despite the fact of Brexit, and the announcement of a change in US trade policy, world trade patterns will continue with expanding multilateral, free trade agreements, or at least those in place will remain substantially unchanged. Bunker industry members clinging to this emotion or belief will be confronted by the fact that changing trade agreements will change the patterns of trade and thus sales demand.

Post-truth isn't a new phenomenon

So, even for the bunker industry, 'post-truth' is a good choice for 'Word of the Year' in 2016, probably even for 2014 and 2015, as well.

But, is it only a 'Word of the Year' choice for 2016 (or the several years before)? Regardless of how we might feel about it, 'post-truth' isn't new, and neither is the 'Make America Great Again' slogan. Thirty-six years ago, in 1980, US President Reagan campaigned that he would also 'Make America Great Again'.

Glenn Kessler, who had the job as

the *Washington Post's* 2016 'Election Fact Checker', comments as follows:

I have never been a fan of the word 'post-truth,' since it's a facile way to describe basic human behaviour since the first words were spoken.

People have always been swayed by emotions and personal beliefs. As fact checkers, we give people the factual information and context for statements made by politicians. What people do with those facts is up to them.

'Emotion and belief come to us easily. Facts don't. Facts often are inconvenient, uncomfortable and expensive'

Go back 500 or so years ago, and maybe 'post-truth' could have also been a 'word of the year'. Political philosopher Niccolò Machiavelli (considered to be the father of political science) wrote in *The Prince* (1532), Chapter 18, that:

Everyone admits how praiseworthy it is in a prince to keep his word, and to behave with integrity rather than cunning. Nevertheless, our experience has been that those princes who have done great things have considered keeping their word of little account, and have known how to beguile men's minds by shrewdness and cunning. In the end these princes have overcome those who have relied on keeping their word.

Machiavelli said to '[n]ever attempt to win by force what can be won by deception,' and that '...he who seeks to deceive will always find someone who will allow himself to be deceived.'

Post-truth is a phenomenon that likely long pre-dates Machiavelli. Daniel Kahneman, Nobel-prizewinning psychologist, authored the book, *Thinking, Fast and Slow*, identifying what he called the phenomenon of 'cognitive ease'.

First, humans do not naturally seek truth; we tend to avoid it.

Second, we tend to think that familiar information is true and only then choose data to support our existing views.

Third, humans naturally avoid facts that force our brains to work harder.

Emotion and belief come to us easily. Facts don't. Facts often are inconvenient, uncomfortable and expensive.

However, in the bunkering industry, and for that matter in much of life, facts are (in truth) seldom irrelevant and unimportant as much as we may want to feel that they are.

Much of the operation of the US Trump presidency continues to fit the 'post-truth' adjective. There are some parts of it, however, that present positive facts for international shipping markets generally and our industry specifically.

Shipping investor Wilbur Ross was confirmed as Secretary of the US Department of Commerce. Former Federal Maritime Commissioner Elaine Chao is Secretary of the Department of Transportation. Former ExxonMobil chief executive Rex Tillerson (Exxon is the fifth-largest charterer of crude tankers) is President Trump's Secretary of State

This is the most marine industry-informed

set of US presidential cabinet members, arguably since the turn of the 20th century. The fact is, even with a post-truth US presidency, that leaders within the administration (even if the President may not) understand the maritime industry, even (with the Secretary of State) the bunkering industry. At the least, this should lead to US maritime policy, including environmental regulation and 2020 enforcement, being more informed than for past US presidential administrations.

Make bunkering great again

Post-truth' leaves many of us with the feeling that our industry is not as great as it once was. But the fact is that the bunkering industry always has been and always will be 'great' and essential in the world. It has been from the time that vessels were freed of sail power and will continue beyond the foreseeable future. Ocean commerce, which drives the world economy, can't operate without bunkering.

There are factual lessons and 'post-truths' of our past three or so years that are essential to recall and keep in action now, though, so that we daily 'make bunkering great again'.

First, insist on the truth and stick to it. Consider fact more important than emotion or belief, even if that forces you to work harder.

Second, learn from past events. They will happen again (no matter how much you would like to believe they won't). Beware of 'cognitive ease'!

Third, seek out and build direct relationships with counterparties who share commitment to service, professionalism, and integrity. An excellent forum in which to do that (fact – the writer is a member of the Board, but this view also comes from fact) is through membership and participation in the International Bunker Industry Association (IBIA).

Personal contact, beginning with picking up the phone to make a direct connection (and confirm wiring and other details to deter cybercrime), takes some extra work. It may present you with facts that don't confirm your views, and that you may want to feel are irrelevant or unimportant.

But, doing that and the other points above will, notwithstanding 'post-truths', lead you and your company to make the bunkering industry and your part in it great again, daily.

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