Euronav NV (EURN) CEO Paddy Rodgers on Q3 2018 Results - Earnings Call Transcript

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Euronav NV (NYSE:EURN) Q3 2018 Results Earnings Conference Call October 30, 2018 8:00 AM ET

Executives

Paddy Rodgers - Chief Executive Officer

Hugo De Stoop - Chief Financial Officer

Analysts

Jon Chappell - Evercore ISI

Chris Wetherbee - Citi

Greg Lewis - BTIG

Randy Givens - Jeffrey

Noah Parquette - JPMorgan Securities

Amit Malhotra - Deutsche Bank

Magnus Fyhr - Seaport Global

Fotis Giannakoulis - Morgan Stanley

Mike Weber - Wells Fargo

Operator

Good morning and welcome to the Euronav Third Quarter 2018 Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note the event today is being recorded.

I would now like to turn the conference over to Paddy Rodgers, Chief Executive of Euronav. Please go ahead.

Paddy Rodgers

Thank you. Good morning and afternoon to everyone and thanks for joining Euronav's Q3 2018 earnings call.

Before I start, I would like to say a few words. The information discussed on this call is based on information as of today, Tuesday, 30th of October, 2018, and may contain forward-looking statements that involve risks and uncertainties.

Forward-looking statements reflect current views with respect to future events and financial performance and may include statements concerning plans, objectives, goals, strategies, future events, performance, underlying assumptions and other statements, which are not statements of historical facts.

All forward-looking statements attributable to the company or to persons acting on its behalf, are expressly qualified in their entirety by reference to the risks, uncertainties and other factors discussed in the company's filings with the SEC which are available free of charge on the SEC's website at www.sec.gov and on our own company's website at www.euronav.com.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement and the company undertakes no obligation to publicly update or revise any forward-looking statements. Actual results may differ materially from those forward-looking statements. Please take a moment to read our Safe Harbor statement on Page 2 of the slide presentation.

I will now pass you over to Euronav's CFO, Hugo De Stoop, to run through the first part of the presentation.

Hugo De Stoop

Thank you, Paddy. Good morning or afternoon to where ever you are today and thanks for joining our earnings call.

As always, I would like to start with the agenda slide on Slide 3. I will run through the Q3 highlights and provide a full financial review of the income statement and the balance sheet before handing back to Paddy to run through the current market themes in the tanker market and Euronav's outlook before we open the call to questions.

So turning to Slide 4 and the highlights page. The freight market was challenging during Q3, but with a twist. While freight rates were under pressure, they were actually higher than those achieved in Q2. This is interesting as it is a rare feature in our market for Q3 rates to be better than those in Q2. The last time this happened was in 2014 and this preceded a very strong freight market. Rates have started improving from early October and we have booked so far for Q4 around $27,000 per day for our VLCC fleet and just over $19,000 per day on our Suezmax fleet for 53% of the available days. Finally, we took delivery of our final two new Suezmax, the Corpus Christi and the Port Arthur during Q3. Both of them are fixed on the time charter for seven years.

Turning to the income statement on Slide 5. The operational integration of Gener8 is now almost complete. One line to focus on is the G&A line where around US$5 million of one-off items related to Gener8 merger were taken. These covered layoffs and accounting fees. We have one outstanding item related to a proxy leave which should be resolved during the current quarter. Finally, we recorded a gain on the disposal of the Cap Romuald of just under $9 million.

Moving on to the balance sheet on Slide 6. Leverage has crept up a little bit as we paid the final installment for the two remaining Suezmax mentioned earlier of $87 million. It also explains the reduction in available liquidity falling to $677 million. There still remains a considerable buffer.

Euronav now has no outstanding capital commitments beyond usual dry docking activity and fitting of ballast water management systems.

That concludes my section of the presentation. And I will now pass back to our CEO, Paddy Rodgers to conclude the prepared remarks. Paddy, it's over to you.

Paddy Rodgers

Thank you, Hugo De. I will now turn to Slide 7. Whilst there will always be a number of complicating factors impacting our business, the tanker shipping market is a relatively simple one based on the interaction of demand for oil and supply of vessels. I intend to look at both of these in the next couple of **slides**.

Firstly, despite the oil price rising by a third from Q2 until the recent peak of $86 per barrel and geopolitical concerns rising throughout the current calendar year, demand forecasts have remained resilient. Above trend growth is expected for both 2018 and 2019 as Slide 7 shows.

Turning to the vessel supply side of things, let's look at Slide 8. 2019 will be a challenging year in terms of the number of VLCC equivalents for the due for delivery. Remember, we classify a VLCC equivalent as one VLCC on two Suezmax. With 66 units due to hit the market, this is quite correctly a key issue for investors. What we have attempted to do in Slide 8 is to assess how this can be absorbed. If we assume an additional 0.5 million barrels per day US crude exports and 300,000 additional Middle Eastern exports; that would take care of around 30 VLCC units.

Iran has around 14 VLCCs in storage, which in simplistic terms would have to be replaced by the world commercial fleet. Adding modest assumptions for recycling at 18 units and capacity taken out for IMO-related dry dockings and 66 VLCC equivalents are covered, a deliberately simple approach but one which should provide confidence to ship owners that this high level of deliveries is nonetheless manageable.

I'll now turn to Slide 9 and our outlook and views on IMO 2020. We believe our view and outlook has been consistent on this subject. We undertook a specific presentation on IMO 2020 in June which we reported on video and remains available on our website. The dislocation that will arise from the new fuel regulation should drive additional benefits for the tanker market in three forms.

Firstly, we should expect an increase in trading routes as focus swings to the sulphur content to each barrel. Secondly, storage opportunities are expected as both crude oil and fuel will require separation and that needs to take place. And three, more crude throughput will be required to produce enough of the new compliant fuel. All of these factors along with potential for slower steaming, reducing capacity and more pressure on older tonnage to recycle will benefit all crew tanker operators.

However, the debate has been largely narrow and focused on scrubbers. Our skeptical stance on this technology is based on three principles. Firstly, the strong indications we're getting from the oil producers is that there will be sufficient quantities of compliant fuel and that it will be competitively priced. The only justification for fixing a scrubber is based on economics. But a wide fuel price spread is required to underwrite such a speculative upfront investment. We do not believe at this point 14 months out that the economics will be sufficiently rewarding for the risk involved.

Secondly, there is a range of operational concerns which we list in our press release allied to the risk of pollution from this technology. There have been no major studies on the environmental impacts of scrubbers and we remain concerned that the effective transfer of pollution from the air to the sea has not been adequately tested by public opinion.

Lastly, we have concerns over regulatory oversight going forward which will require clarification ahead of January 1, 2020.

So in summary, we remain cautious on the technology. We simply do not see the reward or returns being consistent with the risk profile as a speculative investment. We are actively engaged with partners in assessing how we can benefit from the anticipated volatility in fuel prices in and around the new regulation. And I look forward to further discussion of this in the Q&A session.

Lastly, on our summary Slide 10, we upgraded two of our traffic lights symbols in August with the Q2 results. We do not make any changes in our outlook for 2019 but overall Euronav's management is upbeat over the prospects for the tanker market in 2019 and beyond. Demand has remained resilient and supply of oil whilst it was fragile in parts, is returning as OPEC are actively switching on the taps. US export growth is underpinning ton mile growth today and will increase over the next few years as infrastructure investments start to kick in.

Vessel supply, the key factor in our industry is affected by an elevated delivery schedule for 2019. But even here, there is good news. We showed earlier how we think this can be adequately absorbed. But also there have only been four Suezmax orders during 2018 so far and no VLCCs orders in the past five months. This adds further support to our outlook.

That concludes the formal part of the presentation. I will now pass back to the operator for Q&A. Thank you.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] And our first question will come from Jon Chappell of Evercore ISI. Please go ahead.

Jon Chappell

Thank you. Good afternoon, Paddy. I am somewhat reluctant to -- I had one question on industry and especially I'm going to turn to Tony but he kind of asked for it. So, good information on the scrubber to-date, very non-consensus in the press release. So what I'm wondering is as you think about your options, 2020, how do you envision the market kind of playing out? I mean what I mean by that is, what percentage of the VLCCs do you estimate today to be scrubber fitted and will they essentially set the market or do you think the ships without scrubbers with access to the compliant fuel will essentially set the markets? How do you view having a competitive landscape in that environment?

Paddy Rodgers

Well, I think too -- as always Jonathan, good morning and it's a very good question because it goes straight to the heart of the issue, isn't it? There's when people look at this. The great problem that we've always faced in the tanker shipping, not in old shipping, but tanker shipping in particular is just that so much of our cost is fixed cost based around capital expenditure. And we calculate that of course as a non-cash item in depreciation. But when we get on to the pump on oversupply, then of course, it's the operating expenses that determine how low the market can go, not the capital expenses, which is why I think anybody today is thinking of adding capital expense to a VLCC in the hope of what the market will deliver in the future and nevertheless adding to or exacerbating a problem that the market already has. Ship owners, if I want to enjoy good returns on their investment, need to ensure that their operating expenses go up and their capital expenses go down because it's the operating expenses that will put a floor under the market.

So that comes back to that question, what do you think the balance supply and demand will be and how do you think that will shape the market? Well, I think the thing -- a number of things are being missed in the discussion because quite frankly the analysis of 2020 and post 2020 has become completely monocular, people are absolutely focused on one subject only and they're not really seeing the wider picture, which is that heavy fuel oil vehicle, what we burn on our ships is called residual in a refinery and it's the last dumping ground that the only place that you can put sulphur. And as effectively that's now ruled out, sulphur is going to have a price right the way through the oil matrix. And what does that mean? Well, it means that there's going to be a premium for sweet oils, there's going to be a discount for sour oils, there's going to be obviously an orb between the two in which there will be an opening for freight to go out and to fill that gap in order to move the oils to the place where they're most needed. And where people are prepared to bid to buy them or whether they're prepared to accept their impurities because they have the ability to deal with them. And that's going to be good for trading and shipping.

So all of a sudden there's going to be almost like a products right but in crude oil. And this is really powerful. I don’t think that that's been properly taken notice of by analysts looking at latents in 2020. But there is another twist on this. You can no longer start dumping your crudes one on top of the other. Because once you’ve got a segregation based on a premium to sulphur, you need to keep them separate. That means logistics, everybody has talked about the logistical problems around the bunker market, but exactly the same sort of logistical problems are going to exist around the crude market, because these things are going to get differentiated on sulphur content. So I think that there is a very, very significant element of a need for additional storage in ships. And by the way when you store and you dump fuel, so there is a level of plainfield in terms of earning capacity and usefulness between the scrubber fitted and non-scrubber fitted ship. And then in addition to that, there will be a competitive market. But judging from what we're seeing and where the availabilities of heavy fuel are likely to be, we still believe we're probably looking at no more than 10% to 15% of the VLCC market being scrubber ready or scrubber fitted. And I just have to put a caveat on that because a lot of people are talking about it. We’re yet to see anybody really doing it significantly on VLCCs and that will happen in 2019.

So at the moment it looks like compliant fuel should price freight. But there is a little caveat as I said about when these ships are actually going to get fitted, how long is the fitting going to take? No one is going to be doing this at sea or quick and dirty the tankers, that might be the story around dry cargos. But the tanker shipping, you better get this right. If you're going to have a VLCC and you're going to put the 30,000 cubic meters of seawater through your engine room everyday, it is better not leak.

So I think people are going to spend a lot more time on outfitting than they think they are. And I think that's one of the reasons why 2019 is going to be a stellar year. And if we start chasing this market, where we're being hounded for coverage because people are short shifts then of course 2019 will lead nicely into 2020 and we should have the market really rocking on our side.

Operator

Our next question comes from Chris Wetherbee of Citi. Please go ahead.

Chris Wetherbee

Hey, thanks. Paddy, Hugo, Good afternoon. One quick point of clarification on the comments you just made and then sort of a follow-up. Are you implying from a crude trade perspective something similar to a dirty and clean products trade? I just want to make sure I understand from a vessel perspective if you think there has been a desegregation? And then the second one is as you think about the fleet and account of your fleet in the context of what you're talking about and the opportunities there, what do you, what moves do you need to make, are you done post generators more than you wanted to do that from an acquisition or divestiture standpoint?

Paddy Rodgers

Yes. And so I think what I'm saying to you is that I think it's not so much, we're not talking about -- I don’t imagine there will be multiple grades of crude loaded onboard a ship as a result of this anymore than it would have been on cargo sharing in the past. But I do believe that if you have a light oil in the Atlantic and somebody has a simple refinery in the Mediterranean, they're going to have to buy that light oil and that's going to have to shipped. At the same time streams of crude that they might support from the Black Sea will have to go out into the US Gulf. And as you start to see those cross-trades, you'll be pulling on a lot of tanker capacity. That's what I meant.

As far as we're concerned, look, I don't think that -- one of the things I would probably like to remind people -- because I think sometimes there is a little bit off thinking that we are we are fighting a lonely battle. We are, but our lonely battle is only about pricing, the good value for shareholders. When we went into buying the Maersk fleet, everybody told us that we were crazy that the only thing that you should have been buying in 2013 was so called ECO tankers, and the only place to get them was at the shipyard. And some of our competitors went in and they bought ships at $90 million, $100 million, $110 million. While we went out there and we didn't do what everybody else did. We did a counter cyclical view in for our $80 million instead of buying a so called ECO tanker, we bought to 10 year old tankers and hit a booming market. And that's why Euronav has a strong balance sheet because we didn't follow the herd, because we focused don shareholder value. And we always look for transactions that were accretive. Not what was being shouted from the rooftops but what was real value. And let's not forget that we just completed the merger of Gener8 which ships were valued at $75 million where they were bought in that ECO rush at $110 million.

So let's seek value for shareholders, be cautious, be clear minded and not follow a herd.

Operator

Our next question comes from Greg Lewis of BTIG. Please go ahead.

Gregory Lewis

Thank you and good afternoon.

Paddy Rodgers

Hi, Greg.

Gregory Lewis

Hi. Paddy, when you kind of talk about the outlook for 2019 in the slide chart on slide I guess 8 that is, you highlighted US crude exports and I think at this point it’s pretty understood in the US that there's issues with takeaway capacity from shale basins like the Permian but that's expected to be alleviated starting in the middle of next year. I kind of have my questions really around. So that pipeline capacity gets alleviated in the middle of '19. How ready is the Gulf Coast in terms of loading vessels and dredging? And where are we, should we expect -- my question really is, could we seeing that bottleneck that's inlands moved to the coasts in the middle of next year before it's may be alleviated down the road?

Paddy Rodgers

I think that's a reasonable assessment. I think there will be -- as we know, there is some activity on the coast already, but I think it's when it becomes urgent and apparent. And I think that the coast always gets alleviated at least by reverse lightering as a temporary bridge until more fundamental changes are made. A lot of things like I know that the loop offloading -- so loading at loop is rather more of a bottleneck around storage into the pipeline than it is around the shipability to move on and off the key unload. So I think there a lots of things that can be done but they will get done. I mean I think you've really got to understand, and I don't mean that's up to you, but just to say, look, I think all of the people involved in this value chain tend to live a little bit hand to mouth. And so whether you're a refiner or whether you're an exporter so people are very cash flow focused. They're going to get very much more focused in the next year on how they get stuck to market. So I think there'll be a lot of changes next year because the urgency will be on and people will be ready to start spending money and actually doing the work. Thank you.

Operator

Our next question comes from Randy Givens of Jeffrey. Please go ahead.

Randy Givens

Hey, thanks, operator. Good morning, gentlemen.

Paddy Rodgers

Good morning.

Randy Givens

So a quick question. So recently spot rates of routing did substantiate average VLCC rates around I don’t know 50,000 a day, Suezmax 25,000 a day, what have been some of the base drivers for this and do you expect this to continue throughout the remainder of for '18 or is it going to pull back to continue?

Paddy Rodgers

I mean we don't have a crystal ball. We do know that what's interesting is a lot of the lifting coming out of the US Gulf has not just been the China story. And this probably reflects the impact of Iranian sanctions being taken much more seriously this time around because the Japanese and the South Koreans both been active there as well. We see even loads from all point into South Korea, so from the UK to South Korea and Northwest Europe. So this feels like these got legs. I think what's really important to us is there’s no point and there really is no mileage being in the game of trying to predict the unknowable. But this is in line with what was needed in order to rebalance the IEA's figures on expected demand growth for the year because we had a good first quarter on demand growth then it's slackened off Q2 and Q3. If we're going to get closer to the numbers they're currently predicting, then we need to have very big Q4. And now that we're getting -- it looks like we're getting the pull through on those numbers but there are being added ton miles to it as a result of the Iranian story. Then of course what we can see is that the tipping point is the balance between supply and demand is there. And I think owners and charters are clear that they need to secure that tonnage. So I think that as they do that that's good for rates, and it should give us some momentum through the fourth quarter.

Operator

Our next question comes from Noah Parquette of JPMorgan Securities. Please go ahead.

Noah Parquette

Thank you. I just wanted to ask, you guys refer to the slowdown in new orders with no VLCC order since May. Can you talk about where you think is driving that, is that sentiment shift, orders look at the order book or ship owners look at the order book going forward. Is it an increasing newbuild prices and how you kind of think of that risk going forward?

Paddy Rodgers

Well so in terms of the newbuilding order book. I think that we've seen the capacity reduced. And certainly in terms of the marketing effort from some of the shipyards they’ve reduced their workforces, they'd outsourced some of the different functions. And they’ve cut back their expected budgets that are needed to make a year. Because they recognized that they'd simply oversupply the industry. Right now I don’t see anybody standing on the edges of the VLCC market and saying I've got to get in because when they're going to get their ship delivered will be 2021. I mean -- and the environment in 2021 will be very different from what it is in Q4 of '18. So I don't see it being a really, really compelling argument today. But of course if we got sustained five, six quarters of good earnings, then I would see people beginning to thinking okay, this looks interesting.

Operator

Our next question comes from Amit Malhotra of Deutsche Bank. Please go ahead.

Amit Malhotra

Thanks. Hey, Paddy. Hey, Hugo. So I have just a quick follow-up to your previous comment and then a question. Paddy, there is obviously a significant spread today between IFO and MGO and the future of the market frankly is pricing in a significant additional spread. So I just want to understand what happens if you're wrong and this spread kind of continues to widen out? And then on the displacement of the residual fuels, we've obviously heard that period of being stored on VLCCs that has self-absorbed a massive amount of capacity I don't think people really appreciate that with respect to the VLCCs. But I just wanted to see if it actually had any increase or discussions on that topic, just given the impact it could have on the supply demand dynamics? And that's it from me. Thank you.

Paddy Rodgers

Yes. So I think that the promoters of scrubbers and I use that term deliberately, because I think it's not just analysis, it's active promotion, have been advertising the spread between MGO as a proxy for compliant fuel, and HFO for the last -- certainly the last six to seven months. And the fact is that as all of the oil majors and refinements come through, and start to make clear how they'll make that fuel, none of them is proposing that they would blend HFO and MGO, nor would they expect MGO to be the product that’s sold. It's going to be a light sulphur heavy product probably made from residual fuel oil as a result of cracking light sweet crudes, or alternatively already existing low sulphur residuals are not just ticked into the melting pot of bunker supply. And there will be some intermediate free stocks that are redirected within the refineries to make a compliant fuel.

So the result is I don't think MGO is an adequate proxy and certainly we saw the Chinese saying that they thought that the spread it would be no more than half the spread. So already the promoters’ view of how much you could make from having a scrubber has been half and yet that's received virtually no commentary. But we're 15 months out and there maybe further developments, but certainly now the refiners are close enough to be focusing on it and concentrating on it and all of them are saying relatively straightforward to make this, they can make just about anything, provided they’re given the incentive to do it.

So on the one side, we're looking then at the premium between compliant fuel and where HFO is today, and we're saying we don't think that that’s a bit overstated, or a bit exaggerated. If we looked at the other side and said there's going to be a complete destruction of the value of HFO, well, I think the nature of HFO will change, of course it will become much more sour, high sulphur heavy fuel will no longer have a 3.5% limit, it will go wherever it needs to go because that won’t be restricted anymore by the IMO. And we believe that there might be some of the deterioration in quality, you'll have all of the issues about dumping of waste products into the HFO. So it becomes a less reliable body of fuel.

Then in addition to that, will there be a price collapse, will it go to the numbers that have been banded around have been around destruction value in the power industry and that's been suggested as anything between $15 and $20 or $25 a barrel.

Now at that price that is very attractive to people who want to use in the refining industry and it may well mean that we got it wrong. But there are two things to getting it wrong that are important to us or three things actually. One is, first of all that there has to have been a public and active debate that we understand that the public don't care about the industrialization of pollution. Is that clear then who are willing to be the judges of that? That's the fact, if the court will probably continue, will have spoken; and if they don't care, they don't care.

Secondly, are their operational risks? And it's by the start of 2020, it's clear that the operational risks are overstated then Euronav is an extremely strong position both in terms of its cash liquidity and its storage capacities on enormous ships to buy as much heavy fuel oil as we want. And install bankers -- install scrubbers in our own good time to burn those bunkers.

And I just want to make one additional point on it because I think it's one that really does make your eyes widened, is why is it that so many of the analysts keep saying you have to hurry up to get your scrubber fitted. Because if it's a permanent solution, it's a permanent solution, the spread will be there and whether you get it in 2020 or 2021 will make the marginal difference. But when you question them about it, their anxiety is that the spread will be very short lived. In which case, there is a real risk that somebody might miss out from some of that simply because of the positioning of their vessels, where they're moving to or what's going on. And therefore I think that Euronav did have a much stronger player at that time once the regulatory issues may have been dealt with, once the operational issues have been dealt with to simplify a lot on a price full or on a price spike. And then use it on our own good time and therefore capture the benefit without putting at risk some of the shareholder value that a lot of [BLPs] are looking quite cavalier with.

Operator

Our next question comes from Magnus Fyhr of Seaport Global. Please go ahead.

Magnus Fyhr

Yes, thank you. Good afternoon. I have just one question on Slide 8. The time on dry dockings there about 5 vessels, is that -- what does that assume for dry docking and how many ships goes into that assumption?

Paddy Rodgers

So I think the numbers that we used were actually quite low. We put 30 VLCCs retrofitted taking 30 days to fit out plus 15 days positioning other side. It goes us 1800 days and our view on that would be close to five VLCCs. Of course I think that number be could be significantly undercooked. But then on the other hand, we've put in a forecast recycling of 18 and an Iranian additional loss of active VLCCs of 14, both of which are also rough estimate. So I think it makes sense for us to be a little bit conservative on the time out for these.

Operator

Our next question comes from Fotis Giannakoulis of Morgan Stanley. Please go ahead.

Fotis Giannakoulis

Yes. Hi, gentlemen. Thank you. Paddy, regarding the expected pricing of the compliant fuel midway through MGO and HSFO, is this something that you can translate into a contract? Do you have this confidence that the pricing, the spread at the MGO and HSFO is relevant because the compliant fuel will not be produced by the blend of these two? And also I understand you're the only company or one of those two companies that is testing the new blended fuel. Can you talk to us about quality of these blended fuels? Because we've been hearing a lot of comments about the operational difficulties and the lack of stability of this fuel from the potential damage on electronic main engines. Thank you.

Paddy Rodgers

Yes. Unfortunately we can't go into great detail on the results of the trials because we've signed non-disclosure agreements on those. But I think that the panic around -- the panic from the loss of the ship owning operations and I think this is -- I'd say panic I don't mean in any disrespectful way is just because with the suggestion that this was going to be made by blending substantially different materials, everybody assumed there was going to be a blend and I think some people put together an index assuming seven parts diesel and one part HFO, which would be unstable. Now that might be a proxy on price to somebody, but it's not the way that the fuel will be made. So I think the fuel will be more stable simply because it will have a lot more compatibility. And certainly what we're looking at is not going to have those issues. So that's about as much as I could really sound the subject. But Fotis, what ship owners been blamed all the time for not having made their mind having gone in the right direction or being behind the game or not having understood what's going on. But let's be clear about what we're talking about. There is no fixed dollar differential. A refiner doesn't make stuff on the basis of a forward known price. They are working their feedstocks against the product prices assumed refinery gate within the week or the month that they're looking at buying and selling. So the whole thing is totally dynamic. And so all margins are only functions of a percentage of the input feedstock price to crude oil. So until they begin to know their crude oil prices, they won't have a feeling for knowing what their output product prices are and until they know their product demand, they won't know their product pricing so they won't know what they're prepared to pay for crude oils. And as margins are a function as a percentage of per barrel cost of the input barrel against the product prices, all of these things are completely dynamic.

So what we know so far is, that anyway the Chinese, they think is a halfway house and from what we've seen that the materials being made the feedstocks are not that expensive. So it doesn't seem to us that it should be an enormously higher price and I think that it's too dynamic today to fix any of it in an effective way for buying forward.

Operator

Our next question comes from Mike Weber of Wells Fargo. Please go ahead.

Mike Weber

Hey. Good morning, guys. How are you?

Paddy Rodgers

Good morning. Good.

Mike Weber

Paddy, certainly agreed with your comments on floating storage and appreciate you're not using scrubbers as a excuse for dilution. Just I wanted the follow-up actually on I guess the second question that Fotis asked around blended fuel oil kind of quality. I believe the IFO it's actually already running into some issues with blended fuel in the US Gulf. It seems like if that's already happening, if you originate in US Gulf it could be a pretty pervasive problem. I'm just curious if you look at that is that's something; one, how widespread you think that actually ends up being in 2020? Are there areas you look to avoid in that scenario if possible? And then is it something you think as an industry gets figured out, maybe within the first half of 2020 year or is it kind of a nagging issue that this is going to take a bit longer to work out?

Paddy Rodgers

Well, I mean it's a really good question. But the one thing I have to clarify is it was no issue around blended fuels. This was normal bunkering of HFO, IFO did have three or four ships that were affected. Fortunately, none of them badly, about 180 ships worldwide were effected. It seems that the origin was in the US Gulf Coast and the products were not detected by normal bunker survey on delivery of the product because there wasn't a question of the fuel being out of spect. In fact the fuel was inspect, but somebody has dumped a waste material into the fuel in large quantities. So this is quite interesting. I mean the -- I think it was pretty -- it suggested that it was resin products from the timber industry or from something else. It may be a cleaning product or whatever. So we had substantial fuel contamination. Initially it was in the US Gulf where people had loaded it, then additional loads were picked up in both [Nigeria] and Singapore where people realizing that they had bought back fuel and I don't mean ship owners, I mean bunker operators, resold it in order to get rid of it before it was detected. So it was spread quite widely.

This is the continuing problem with the bunker pool and it goes back to what I was saying about this really being residual oil. This is the waste products of the refinery. This problem for the bunker users and in 2020 it will be for the people who are using scrubbers and high sulphur heavy fuel oil, they will have a bigger problem, because that bunker pool will shrink, it will become more sulphurous and it will become the obvious place to tip any waste product.

So that's going to be a very, very hot topic on 2020, but not for the compliant fuels. Because in the compliant fuels I think we're going to see a completely different story. There I'm going to see -- I think we're going to see the potential for some of the key oil refiners to say that they want to reenter the bunker market. Because as they think that that’s a real product again rather than a waste product, than they don't have the distance themselves from the way they have done in the past. And they can reenter it and perhaps gaining some brand premium for reliability assurance of quality and provenance.

Operator

[Operator Instructions]. Our next question comes from Espen Landmark of Fearnley. Please go ahead.

Espen Landmark

Hi, good afternoon. I mean one of the concerns you're raising on IMO currently, just kind of the implementation and enforcement we’re seeing. I'm just curious have you guys seen an indication so what kind of penalties the frac states are considering for an owner bringing ship for HFO and non-scrubber? I mean is it a potential feature of the ship, is it a dollar notional amount, anything else? Thank you.

Paddy Rodgers

In short the answer is no and the current legislation is very variable. And I think a few people have done analysis of if you just assume that it's fell under current legislation then it could be anything from the net value gained on the voyage or it could be a penalty per day of non-compliance or it could be a fixed amount with some caution for directors. But what we've seen so far on ecozone enforcement is that it's not been very impressive. Ecozones are beginning to see increased non-compliance with the 0.1 fuel allowance and 0.2 is considered non-compliant through sniffing, through sniffing the exhaust gases, and there has been very little enforcement which is why I think non-compliance is going up.

Operator

This concludes our question-and-answer session. The conference has also concluded. Thank you for attending today's presentation. You may now disconnect.