

# Product tankers less likely to see big newbuild cuts

## Limited number of specialised shipyards will mean less competition for orders, says Marco Fiori

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THE product tanker sector is unlikely to see shipyards slash newbuilding contract prices as dramatically as other shipping sectors due to the small number of builders that can construct quality tonnage, according to d'Amico International Shipping chief executive Marco Fiori.

With less than 10 suitable Asian yards they were unlikely to be forced into undercutting each other to secure employment, he told Lloyd's List following the Milan-listed company's third quarter financial results.

"For sure they have pressure as there are less orders but on the other hand the product tankers are such a specialised market and there are not many shipyards that can build them. At the end of the day they are in a stronger position than the large number of yards, say 25 to 30, that can build bulk carriers," Mr Fiori said.

London-headquartered broker Clarksons estimates the average newbuilding contract price for 51,000 dwt medium range tankers at \$35.5m, in line with prices at the end of 2009 and 2010.

The Italian company - a listed arm of parent group d'Amico Società di Navigazione - was not ruling out new orders, despite still having two newbuilding vessels due to be delivered.

"I think we are always looking at growth and if we had to do something today we would be looking at doing some kind of time charter contract with an oil major; a project we would feel more comfortable with," he said.

"It would have to be something more conservative as it is not in our interest to just go out and order a large number of ships."

Mr Fiori added that the advantage of ordering newbuilding ships now rather than looking for distressed secondhand sales was that they would be delivered in 2013 or beyond, when many product tanker specialists anticipate the market's recovery will be well under way.

The added "beauty of a newbuilding today" was also that they could be built with technology that would make them extremely efficient on fuel consumption,

as owners and operators face the increasing difficulty of high bunker prices.

He told a conference call earlier that the industry was surprised at how few distressed companies and secondhand sales had emerged this year, as there had been expectations of more companies struggling financially and needing to sell off tonnage to generate cash to balance their bank sheets.

It was likely that this sector could still see some casualties going forward as financing becomes harder to secure as banks reduce lending in the shipping industry and other companies' need to source cash to back large newbuilding orders.

Moving forward, however, the market fundamentals within the product tanker sector should improve though, with Mr Fiori confident that fourth quarter rates and activity would improve and continue to into 2012.

Average time charter earnings for its fleet of 20 owned and 17 chartered-in product tankers - mainly MR tankers shipping cargoes of around 37,000 tonnes - were \$14,164 per day in the third quarter of the 2011, down from \$14,687 in the second quarter due to "weak seasonality" during the northern hemisphere's summer months and uncertainty in the global economy.

Overall the company reported a loss of \$9.6m for the third quarter of 2011, pushing up its net financial result for the first nine months up to a loss of \$19.8m, as poor spot market earnings and conversion of Japanese-denominated loans into US dollars hit its bottom line.

Revenue generated from time charter equivalent earnings for its product tanker fleet was \$45.6m, down 10% on the same period of last year, with average third quarter earnings per ship at \$14,164 per day, the lowest level so far this year.

Discussing changing trade lanes, whereby refining plants in the Atlantic were closing at the same time as new plants were being built in Asia and at points of crude production in the Middle East, Mr Fiori said the potential for larger vessels carrying bigger cargoes over longer distances was not a threat.

He said MR tankers were the workhorse of the product tanker market and were more practical than long range tankers as they could reach ports with less infrastructure as well as meeting the needs of emerging economies that would not necessarily require large imports.

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Fiori believes the product tanker sector is unlikely to see shipyards slash newbuilding contracts.

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