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Tanker optimism against all the odds

Developments in demand from Asia and a shipyard anomaly are improving the mood of shipowners

TOM LEANDER – HONG KONG

AN INTERESTING thing happened on the way to the tanker crisis: tanker owners are not wearing a look of animal fear that is expected of the damned. In fact, many have the benign look of a person that believes all will turn out well in the end. Mostly, it is developments in Asia that have added some heft to the wishful thinking.

Had you been reading Lloyd's List in February this year, you would think that most tanker owners were on a road to perdition, strictly in money making terms. The US-based tanker consultancy McQuilling predicted in a report that month that all types of tankers except suezmaxes face losing money over a seven-year period, hit by oversupply of tankers that will, despite robust global demand for crude and products transport, outpace that demand and drive rates down. McQuilling forecast time charter equivalent earnings to stay at 2010 levels for two years. McQuilling saw the return of the peak of the tanker rate cycle at a distant 2017-2018.

Poten and Partners issued a report later in February expressing similar views. The New York-based tanker broker and consultancy predicted that three of the four major tanker classes shipping crude or fuel oil — suezmax, aframax, and panamax tankers — would undergo a modest recovery this year, while VLCCs would see no recovery. But it also said that all of these vessel types would see below long-term averages over the next five years.

Predictions like these have brought forth spectres of the tanker bust that lasted from 1979 to 1987. As recounted by Martin Stopford in his Maritime Economics, the trigger for the tanker recession was the Iranian revolution, which led to a drop in seaborne trade of oil from 1.4bn tonnes in 1979 to 900m tonnes in 1983. The sharp decline in demand was matched by overbuilding in the 1970s much as today. Companies experienced cash flow crunches and tankers increasingly went into lay-up.

Sentiment was at its darkest in 1985. The market's experience then, according to Mr Stopford, "demonstrates that in a free shipping market the adjustment of supply is a long-drawn out, uncomfortable and expensive business, however simple it may look in theory".

But the cycle eventually did turn. Ordering during the fallow years dropped off dramatically. By the time the global economy was on the rise, driven by the entry of the Asian 'tiger' economies, owners began a spate of ordering that lasted from 1988 to 1991. Unfortunately, the ordering turned out to be an overreaction. With 1970 tankers still available to trade and some 55m dwt of new tankers ordered in three years, another rates recession ensued, which lasted until 1995, when the supply and demand balance improved for owners.

This historical record aside, Bruce Chan, chief executive of Teekay Tankers, cited lower ordering during this current rates recession as one reason for a likely rebound. Remembering a later cycle, he said: "The lower ordering set up the big bull run of 2000, setting up for the classic cycle rebound." Mr Chan, speaking at a Capital Links webinar last week, noted that the orderbook is about 24% of the existing tanker fleet, but also that ordering levels have hit near-historic lows. Clarksons reports only 28 tanker orders so far this year, compared to 233 in 2010, 131 in 2009, and 425 in 2008.

The low ordering turns not to be a simple case of common sense, of owners shutting down speculative ordering because of the strapped condition of the market, although this is certainly a factor. Another reason is that shipyards fit to build tankers in South Korea and China are now jam packed with orders for container vessels, some of them of unprecedented size, as well as liquefied natural gas vessels and floating production storage and offloading and other offshore vessels.

South Korean yards, in particular, have met their sales targets for the year.

The truth is that nature seems to be on the side of tanker owners: even if they wanted to order, it would be difficult to do so for some time.

Another reason for measured optimism is the demand scenario from Asia. Very different from the 1979-1989 tanker crisis, when global demand reversed, Asian consumption of oil is climbing, with about 30% of the volume pumped out by the world consumed by China. Indian oil demand has been especially strong as well, with consumption growing 3.9% year-on-year in the first quarter of 2011, according to Poten.

Between 2005 and 2010 crude oil spot fixture volumes from the Organisation of Petroleum Exporting Countries to Asian destinations increased by 25%. That figure is likely to grow.

In line with this growth profile, Poten predicted in its February report that Chinese demand for crude sourced from long haul destinations in the Middle East, West Africa and South America would led

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to an increase in very large crude carrier rates in 2012.

Participants in the Capital Links webinar saw the trend for sourcing oil from new Asian refineries now coming on line to be a factor that will improve tonne-mile demand. Marco Fiori, chief executive of d'Amico Tankers, predicted this trend would boost tonne-mile demand growth to around 6% by 2013. Capital Products chief executive Ioannis Lazaridis said it could exceed 8%.

These two factors make the optimistic cast of some tanker owners seem downright reasonable. One proviso should be considered. The sector appears to be aided by favourable trends outside of its own controls. At some point, strategy and judgement will be the deciding factor on whether the industry makes the most of an Asian-driven upswing.

As demonstrated in the years in which tanker shipping emerged from the crisis between 1988 and 1991, it is possible for perfectly sensible owners to forget the lessons of the past and begin ordering like there's no tomorrow. ■

Tanker owners are profiting from a surge in oil consumption in Asia. *Shutterstock*

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