Market Distortion and Sustainability and Tankers’ response

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The State of the Industry
Tanker trends - fleet, VLCC price, oil demand, and tonne-miles indices

- Oil demand index
- Tonne miles crude tanker index
- Tanker fleet index
- VLCC price index
Tanker trends - fleet, VLCC price, oil demand, and tonne-miles indices

Tanker indices

- Tanker fleet index
- Oil demand index
- Tonne miles crude tanker index
- VLCC price index
- Contracting (dwt) index

Leading the way; making a difference
Oil price and freight rate

Nominal price Arab Light
Real price Arab Light
Nominal freight rate AG-West
Real freight rate AG-West

Deflated by the Consumer Price Index (USD)
CPI* index 1982-84=100
Tanker marker status

- Weak freight market
- Falling values
- Strong increase in supply of tankers, but
- Low ordering
- Weak outlook – short and long term
- Worries over sustainability
Market distortion @ Sustainability

Market distortion

Market failure

Breakdown of price mechanism

Sustainability

Economics

Environment/Safety

Transparency

Society/Equity

Responsibility

Accountability
The tanker industry stake holders
Nobody works in a vacuum

Chain of responsibility/sustainability
Tankers serve the oil industry

FT 100

Market value ($m) 10 largest March 2012

- Chevron
- General Electric
- China Mobile
- Shell
- I&C Bank of China
- IBM
- Microsoft
- PetroChina
- Exxon Mobil
- Apple

1,000 bn market value

Leading the way; making a difference
US oil price and freight costs

$ per barrel

Freight costs, Persian Gulf - US
Oil price FOB

1973: 43%
1988: 8%
1992: 5%
1999: 11%
2000: 11%
2001: 11%
2002: 11%
2003: 11%
2004: 11%
2005: 5%
2006: 5%
2007: 4%
2008: 4%
2009: 4%
2010: 4%
2011: 2%
2012: 2%
Gasoline price at the pump January 2012

Cost elements making up the gasoline price:
- Tax
- Long haul freight rates
- Refining/Marketing profit
- Oil price
- Price January 2002

USA

UK

Oil consumption per capita

Leading the way; making a difference
It’s unwise to pay too much, but it’s worse to pay too little. When you pay too much, you lose a little money — that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing it was bought to do. The common law of business balance prohibits paying a little and getting a lot — it can’t be done. If you deal with the lowest bidder, it is well to add something for the risk you run, and if you do that you will have enough to pay for something better.
Need for new contracts to cover future demand

Assumptions: Balanced market end 2008, 3% increase in demand 2012-2017, 2 year lead time; scrapping 2013 – 2017 on average 10.6 m dwt per year
Change in preconditions
Historical VLCC hire and bunker costs

- TC hire (+port costs)
- Bunker

Year:
- 1992
- 2002
- 2012
Bunker price Fujairah and basis bunker price WS 380 Cst

$/tonne

- 380 cst Fujairah
- Annual average Fujairah

Leading the way; making a difference
The combination of low freight rates and high fuel prices since 1973 has made it abundantly clear that one can no longer assume constant vessel speed when analysing shipping markets.

Professor Victor Normann/Research Associate Tor Wergeland - Norwegian School of Economics 1977.
VLCC speed in laden and ballast conditions

Source: DnB

Speed - nautical miles per hour
Conclusion
The tanker market

- The tanker industry is to a great extent a part of the oil market
- The oil companies are among the biggest companies in the world, and do to a great extent set the standards
  - Commercially
  - Technically

The boss of Greece largest tanker owner at Posedonia 2012”:
“The specs for VLCCs have changed very little since late 1970s and early 1980s

- Demand development relatively steady
- Strong fluctuation in freight rates and values
- Fragmented ownership
- Spot market dominance
- Zero tolerance for accidents
Strategic consideration

- **Market distortion** contribute to a destruction of values and delays innovation and development.
- **Sustainability** strongest in an open and free market.
- Distortion often concealed – OECD contributes with knowledge and contributes to better understanding.
- **Long term forward looking** most productive,
  - History tells us what not to do but not necessarily what to do.
- **High bunker prices** have changed economics in shipping.
- **Age** >15 years becoming an issue in tanker shipping.
Q & A
You have Questions
We have Answers