



Market Distortion and Sustainability and Tankers' response

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OECD - WP 6

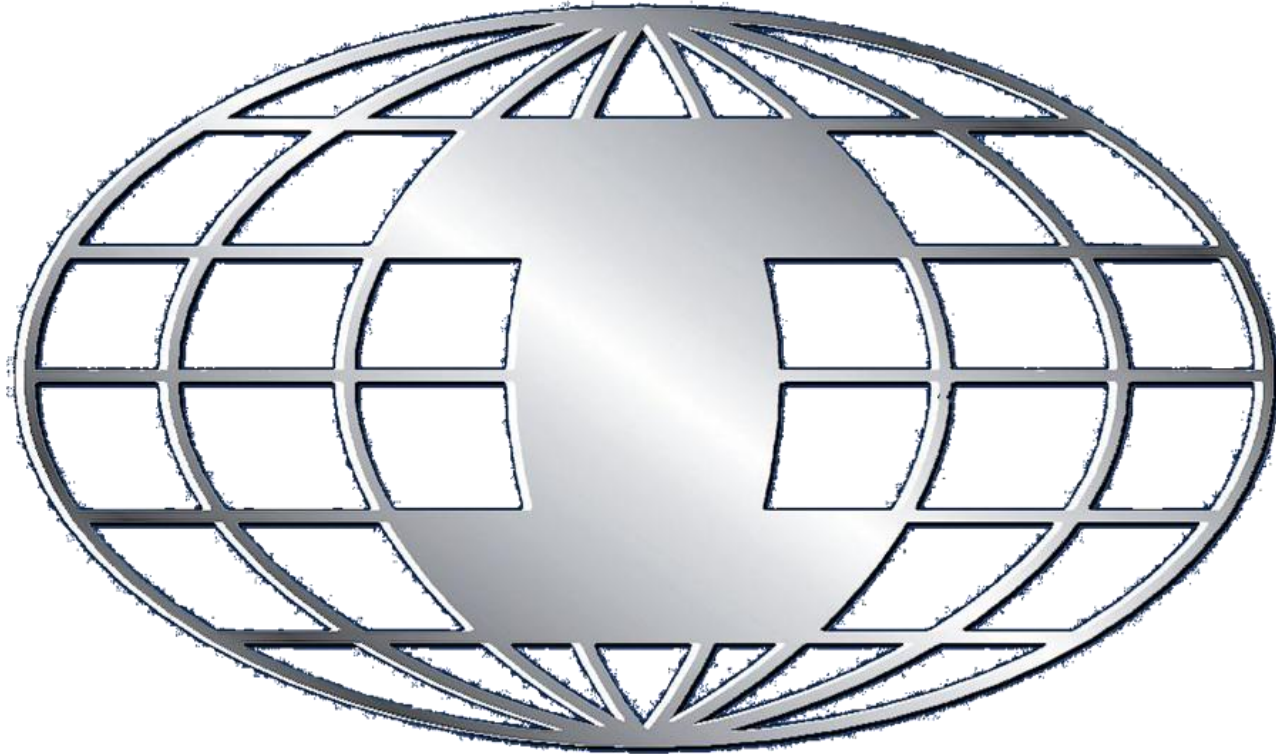
Paris, June 21st 2012

Erik Ranheim

Senior Manager Research & Projects INTERTANKO



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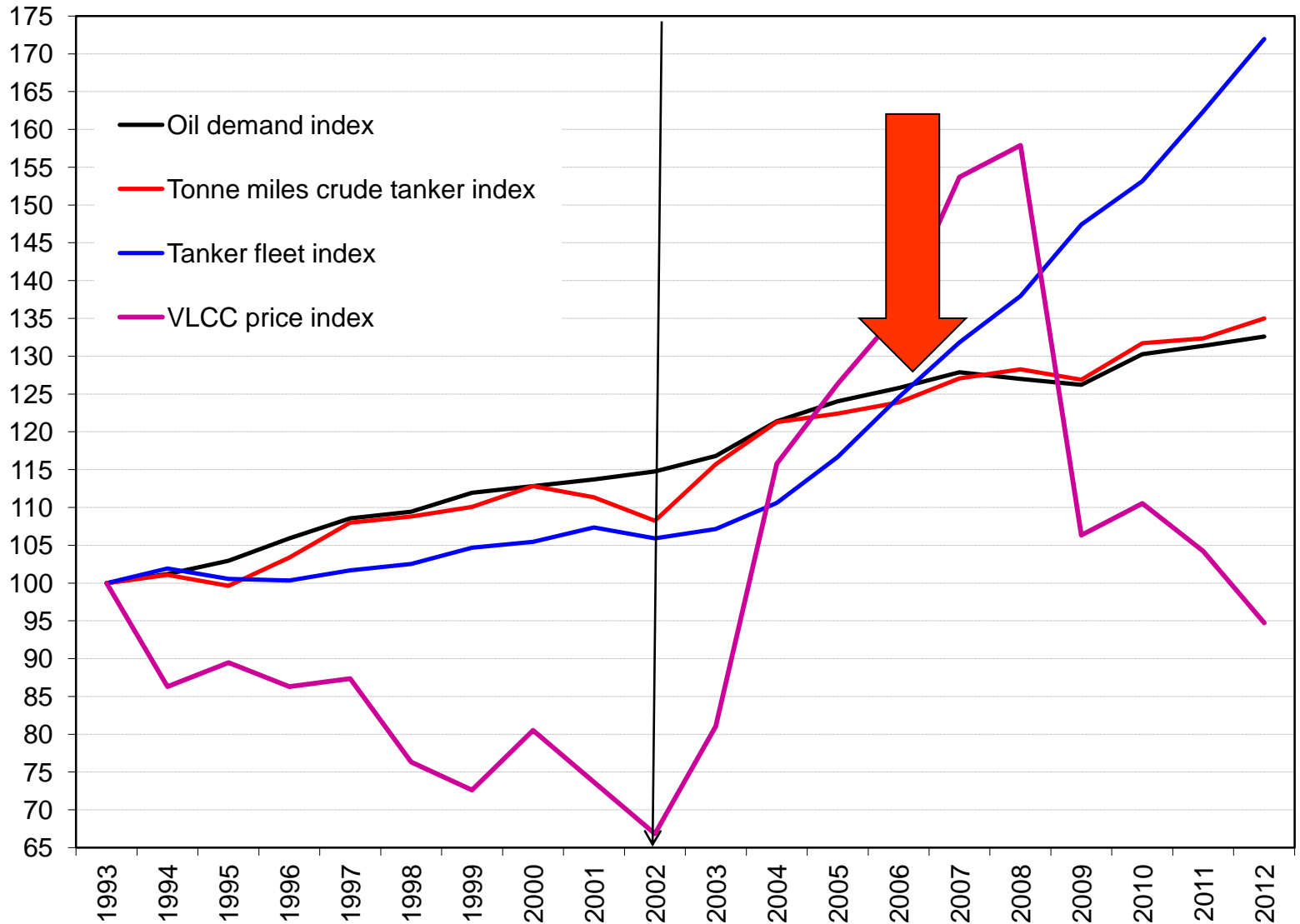


The State of the Industry



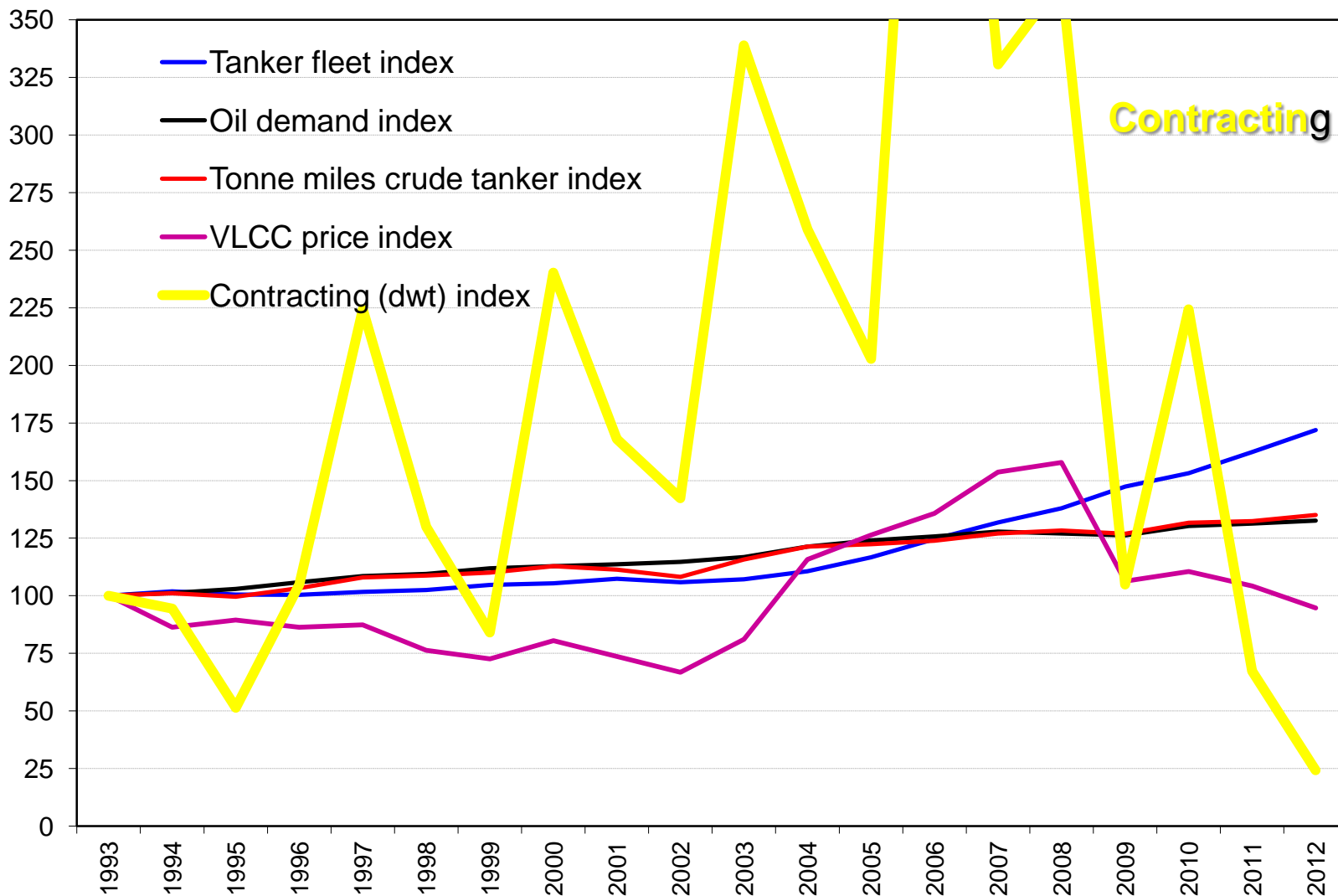
Tanker trends - fleet, VLCC price, oil demand, and tonne-miles indices

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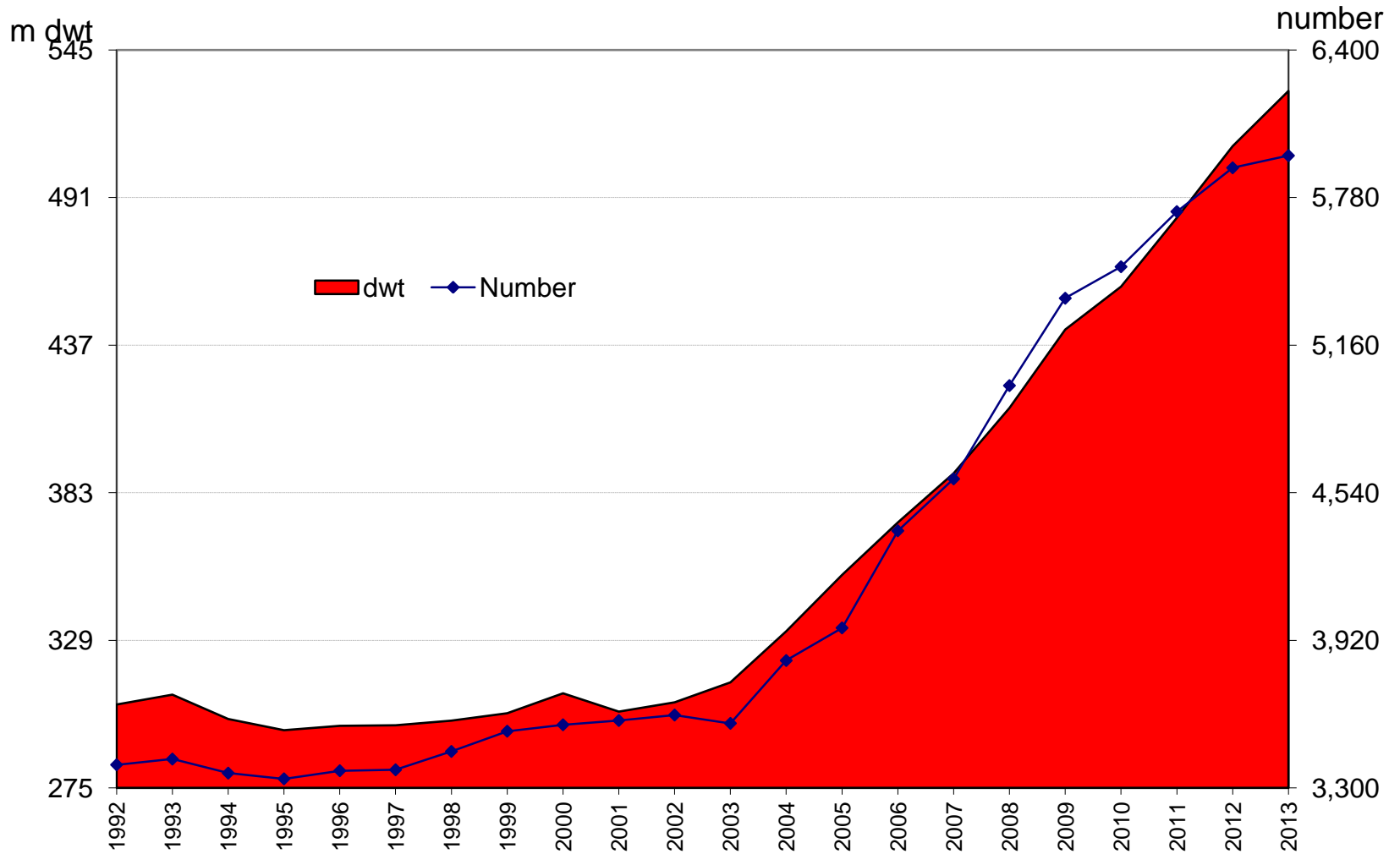
Tanker indices





Projected Tanker Fleet Development 1992-2013

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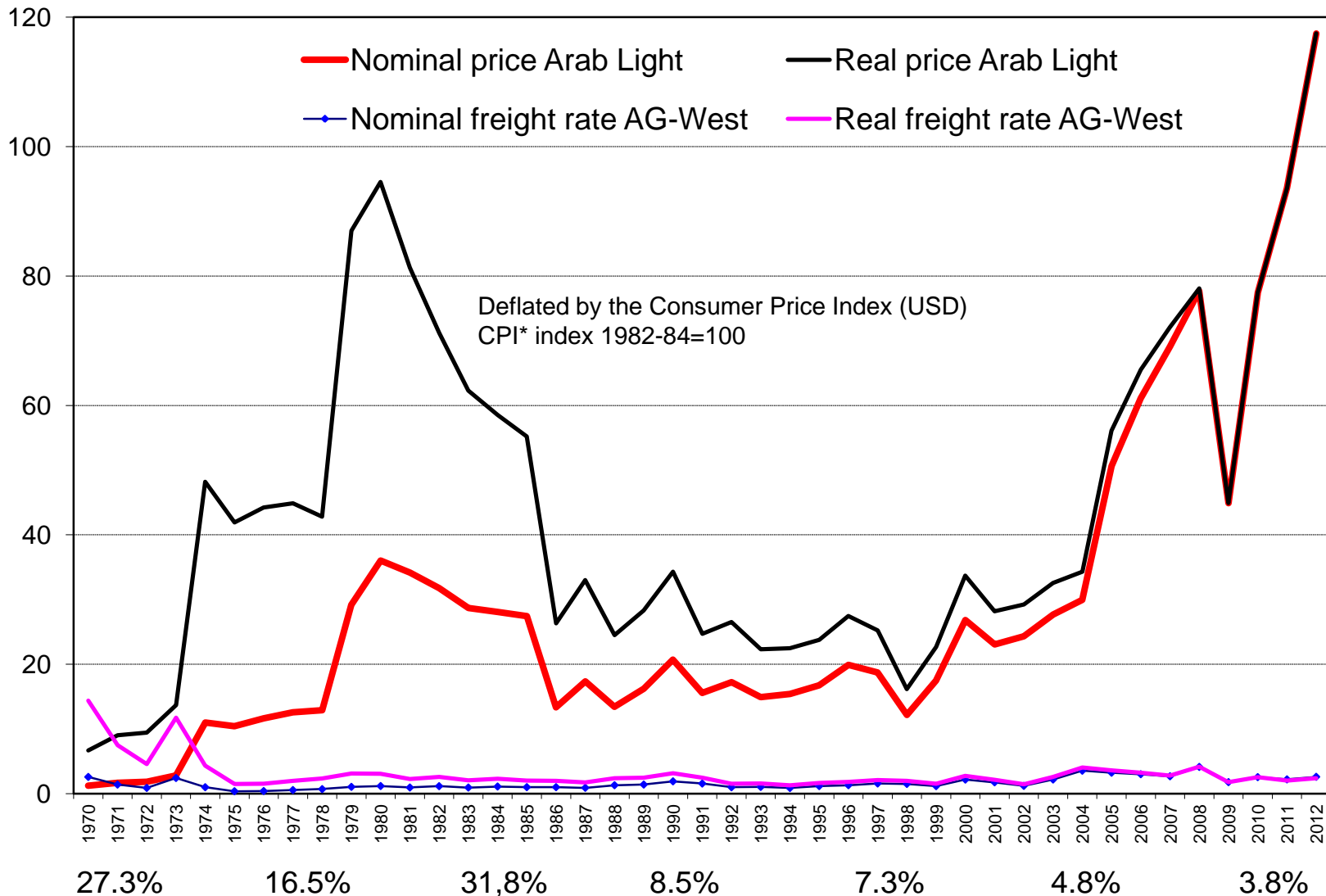




Oil price and freight rate

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mbd

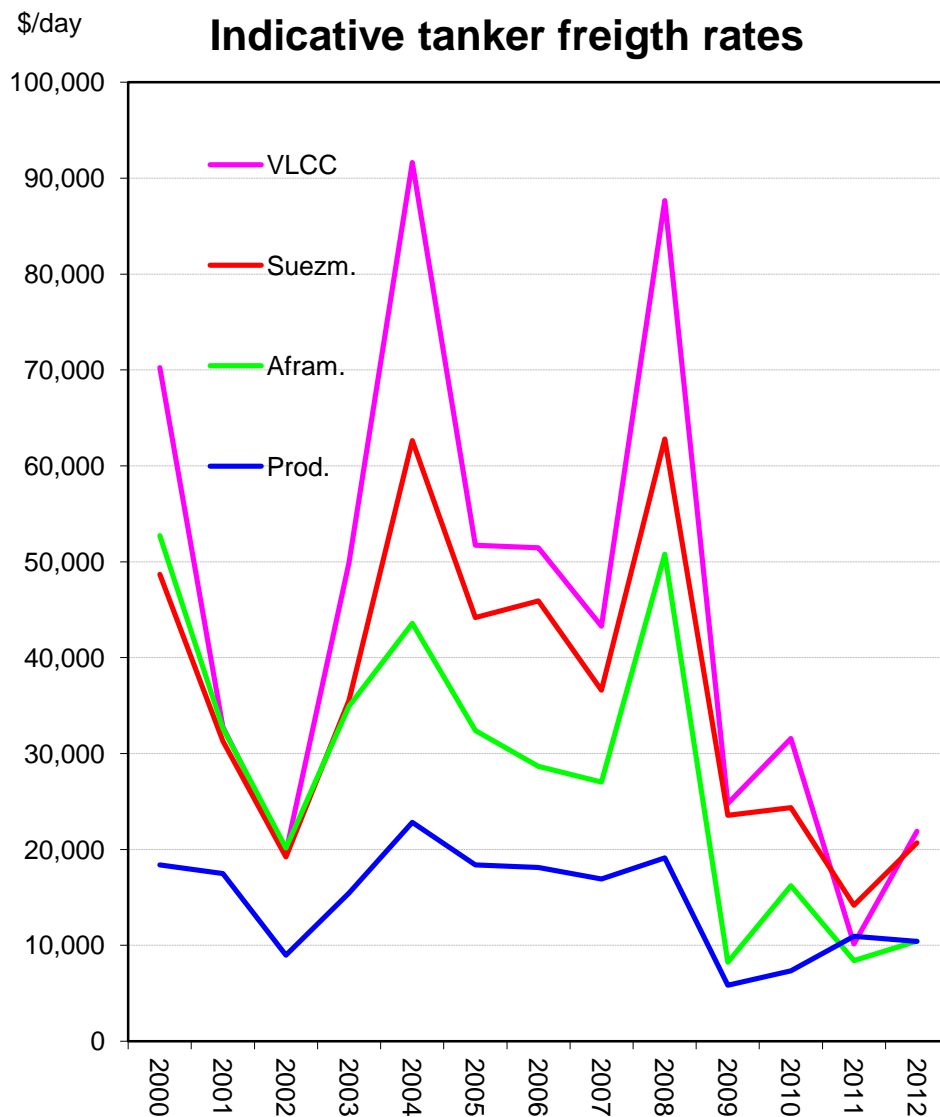




Tanker marker status

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

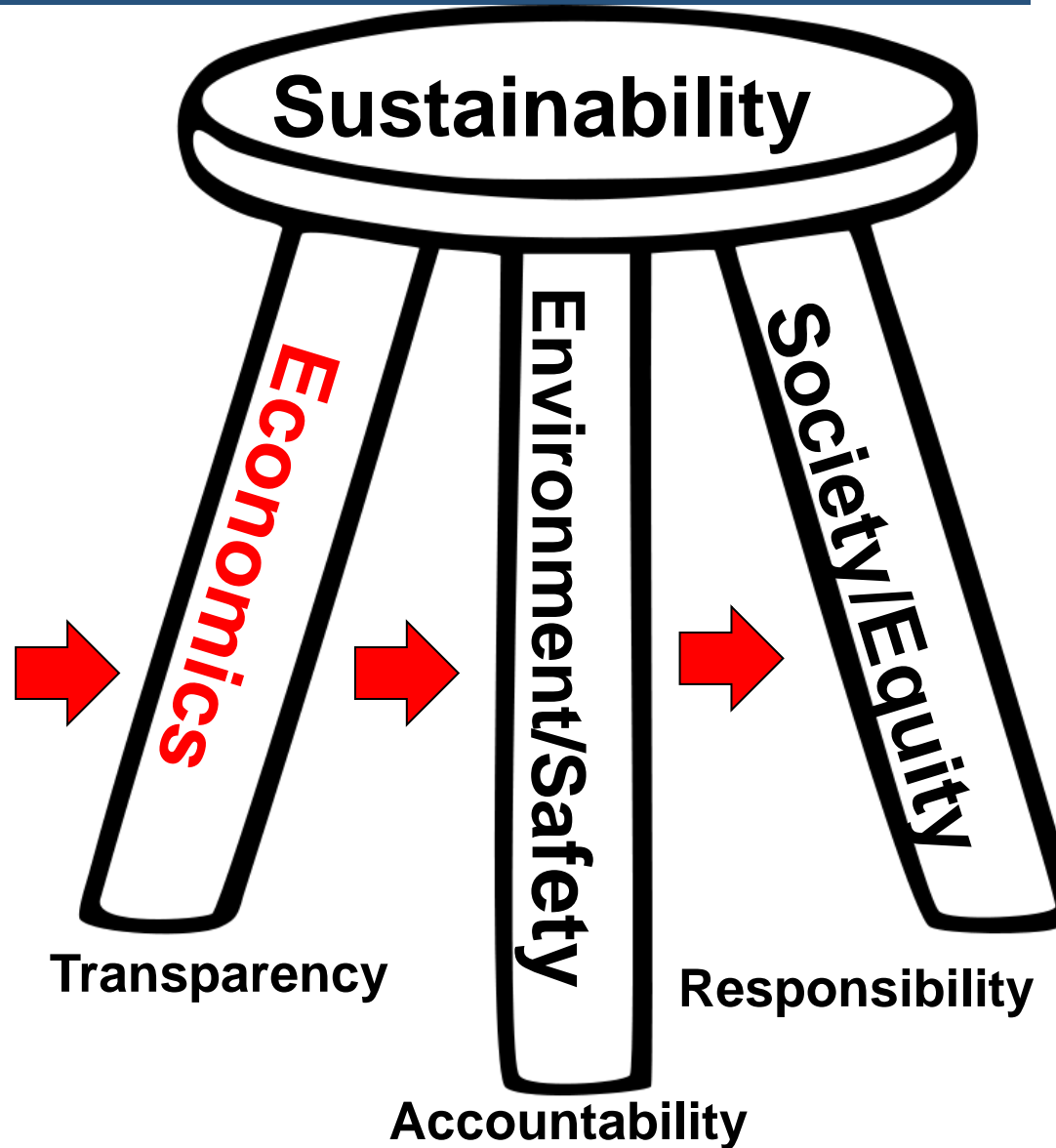




Market distortion @ Sustainability

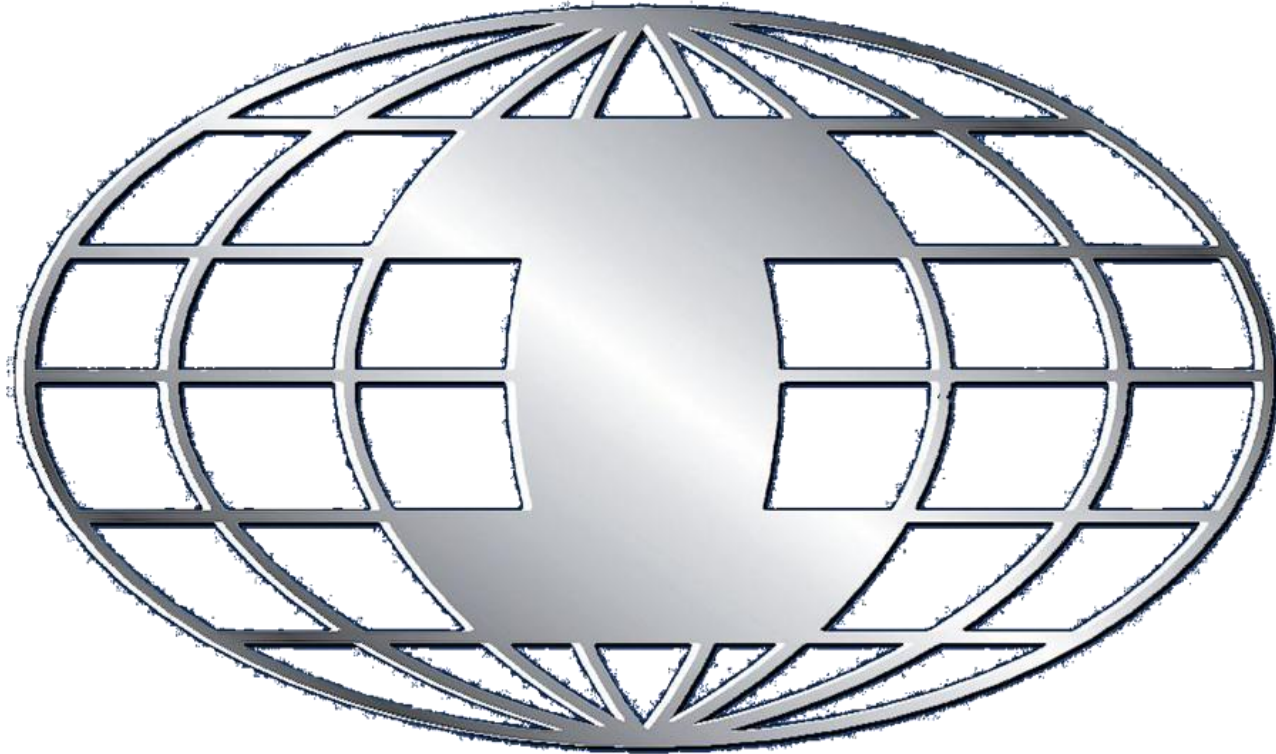
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Market distortion





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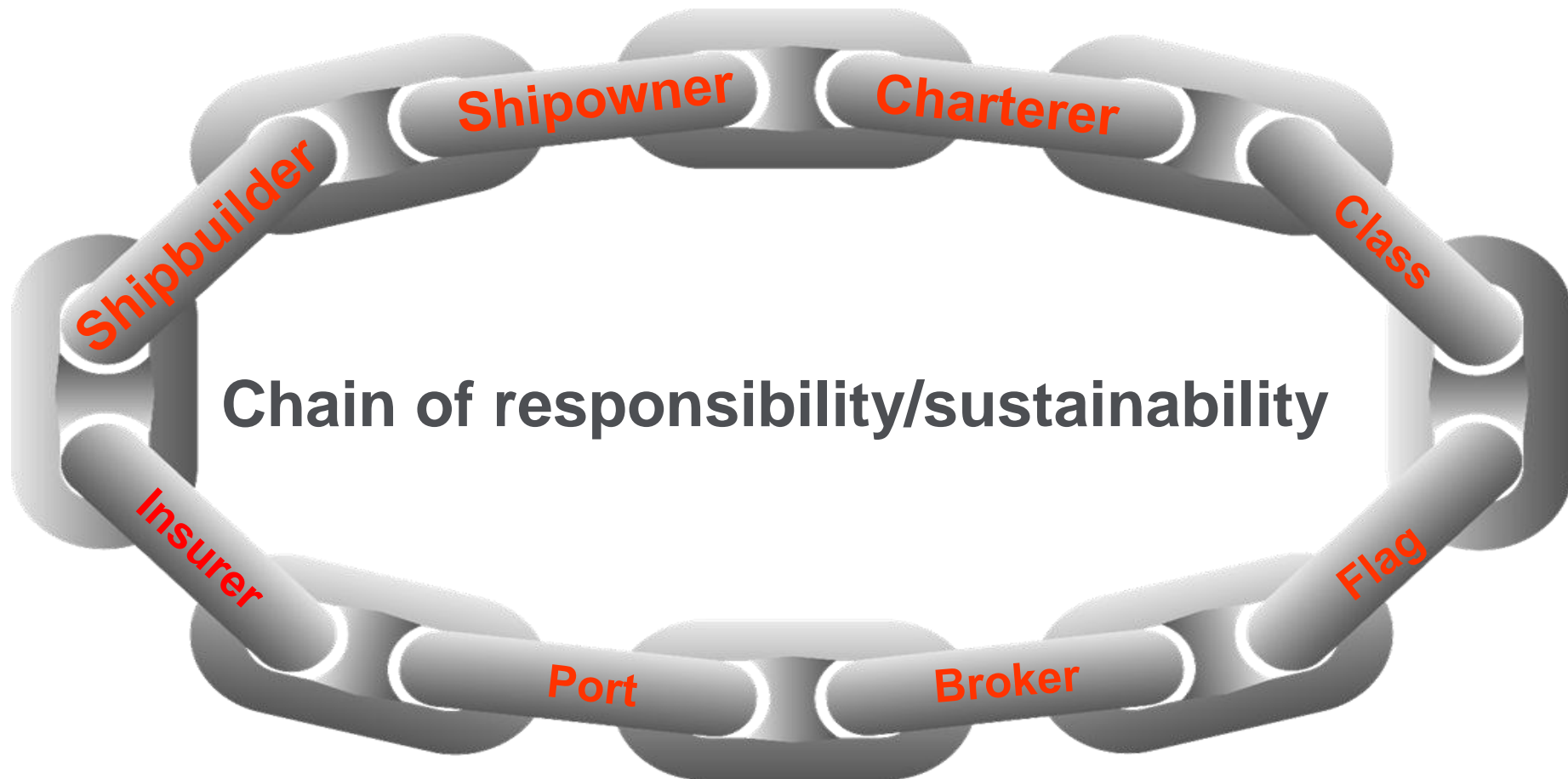


**The tanker industry
stake holders**



Nobody works in a vacuum

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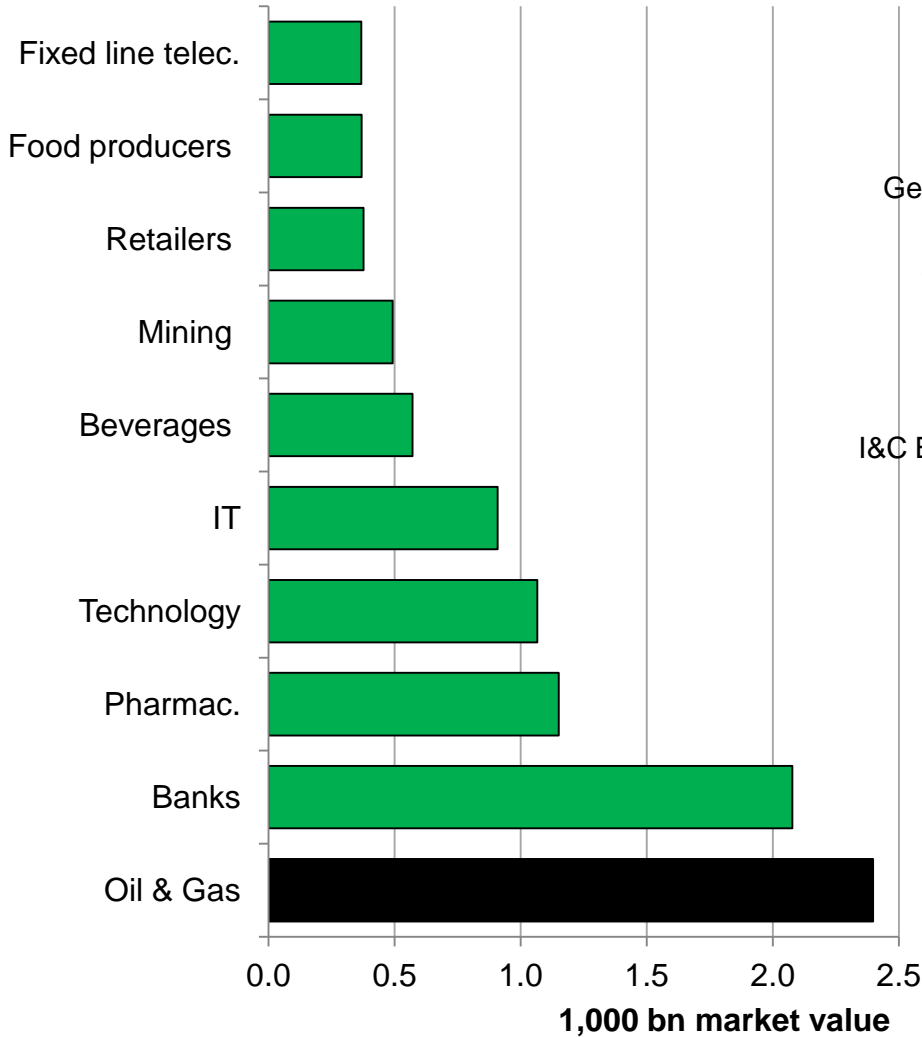




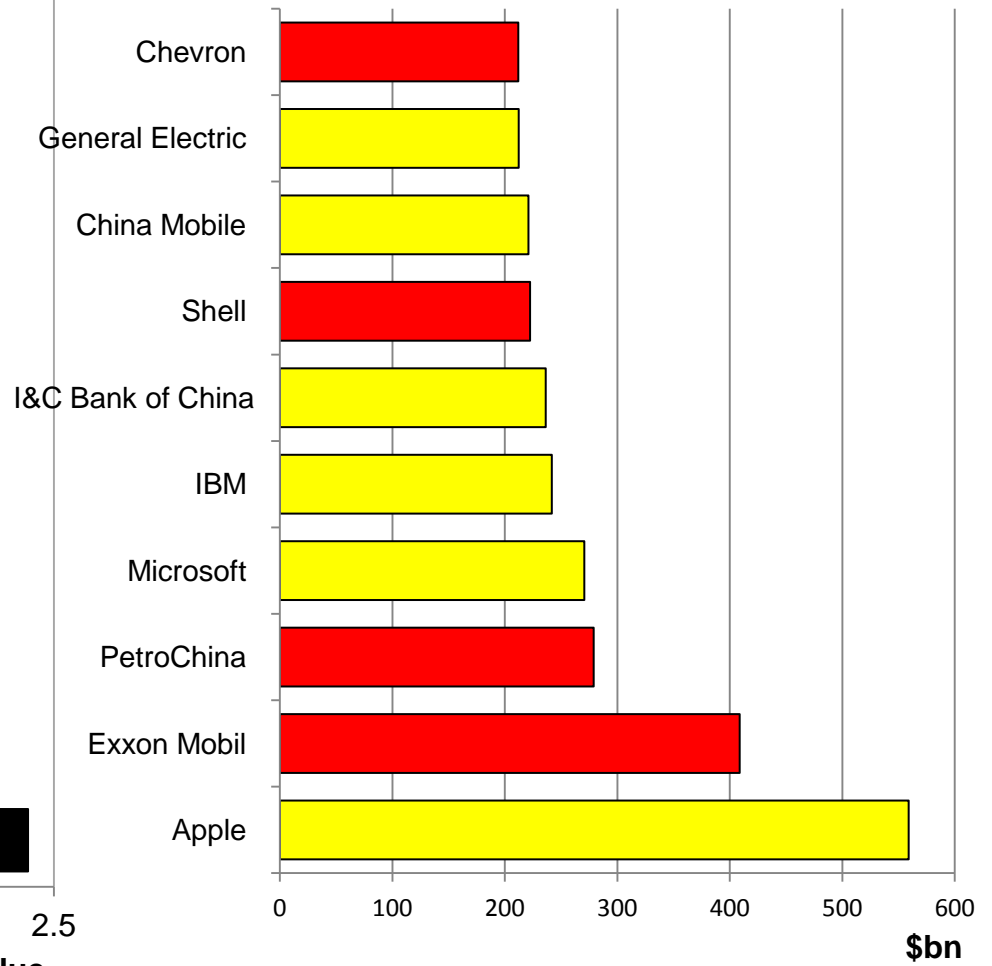
Tankers serve the oil industry

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FT 100



Market value (\$m) 10 largest March 2012

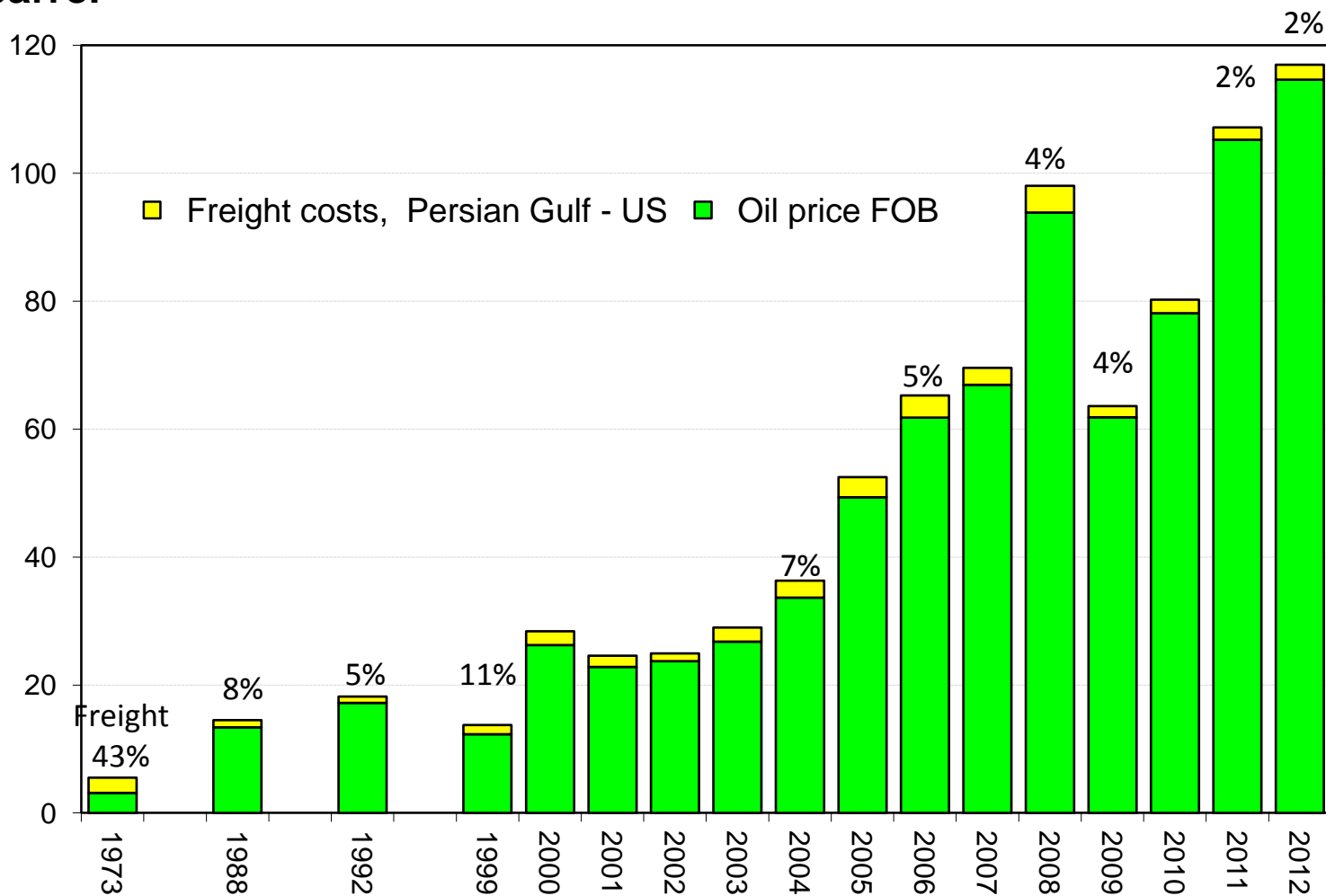




US oil price and freight costs

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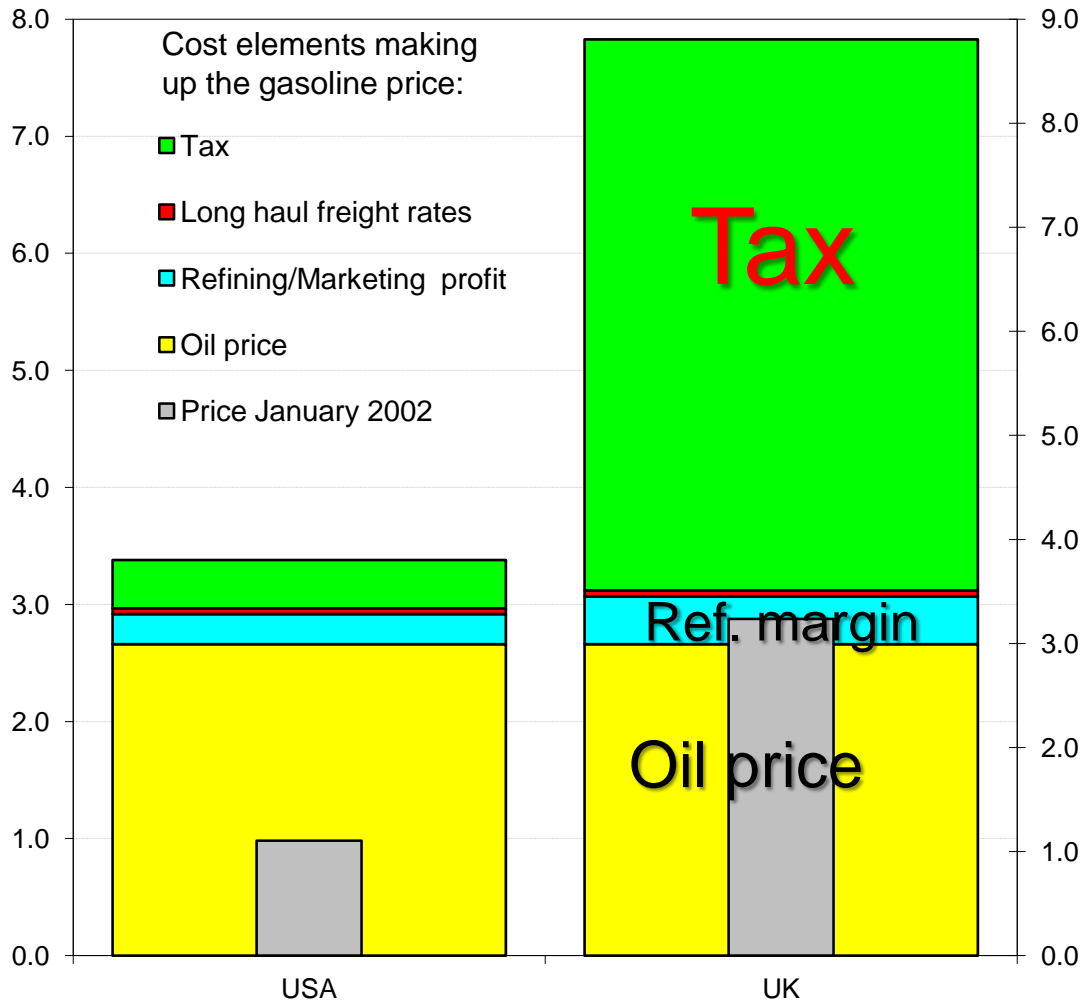
\$ per barrel



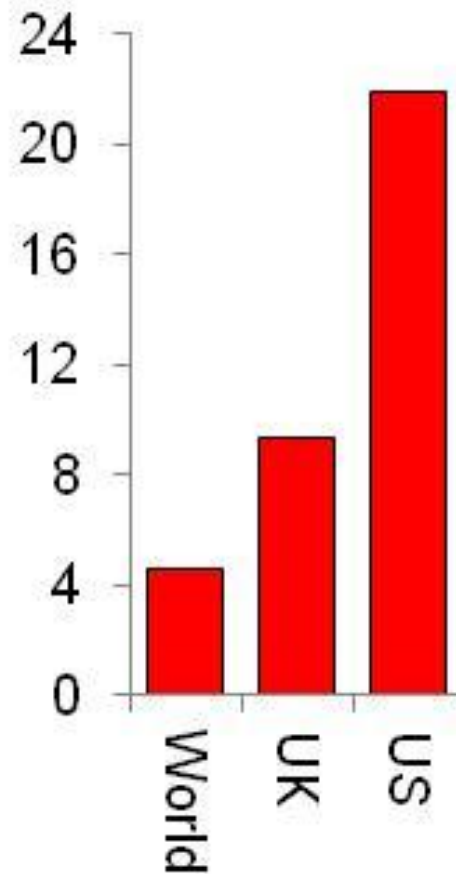


Gasoline price at the pump January 2012

USD per gallon



Oil consumption per capita





The Common Law of Business Balance

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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.

prominent social thinker and philanthropist

Leading the way; making a difference

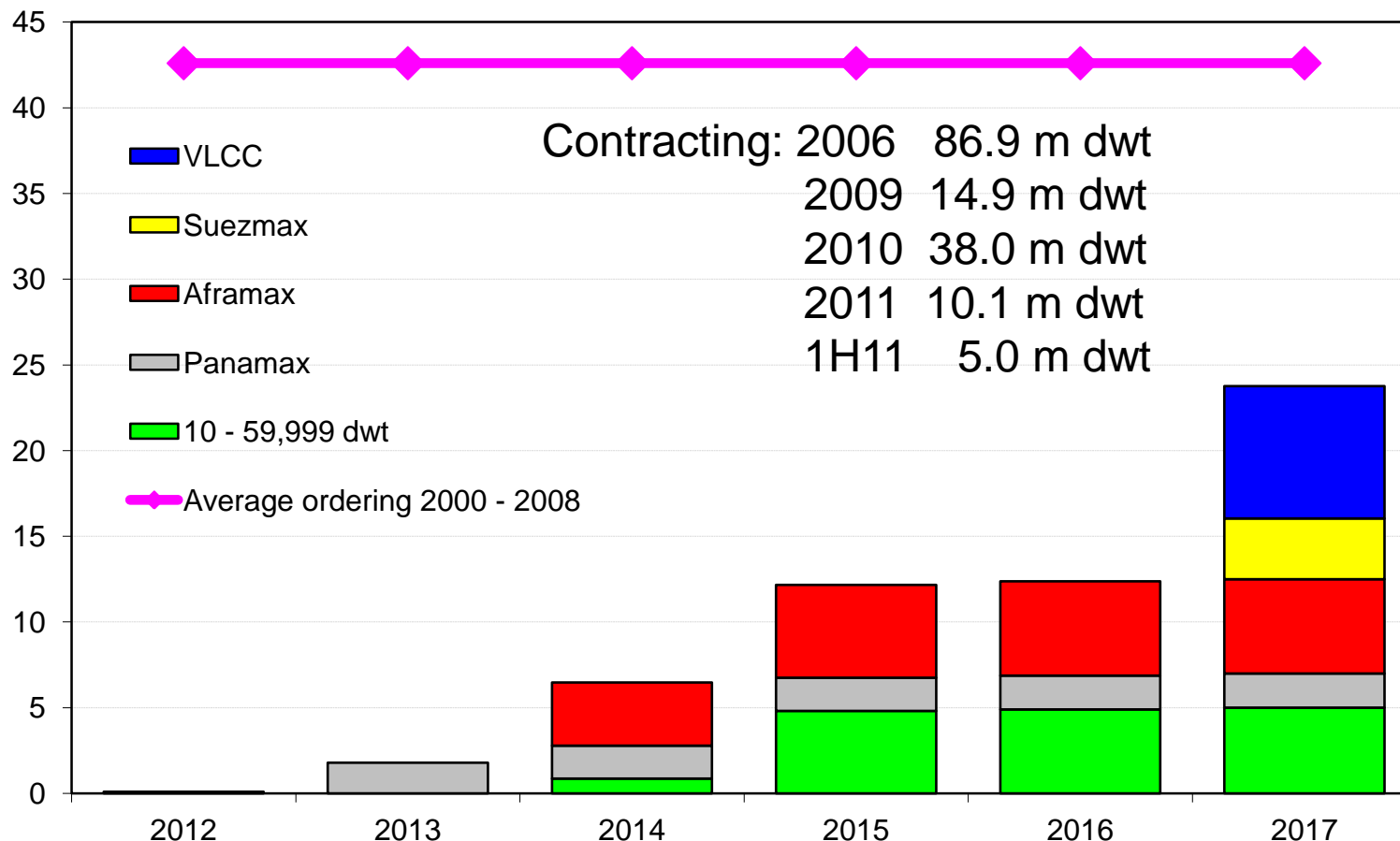
John Ruskin (1819-1900)



Need for new contracts to cover future demand

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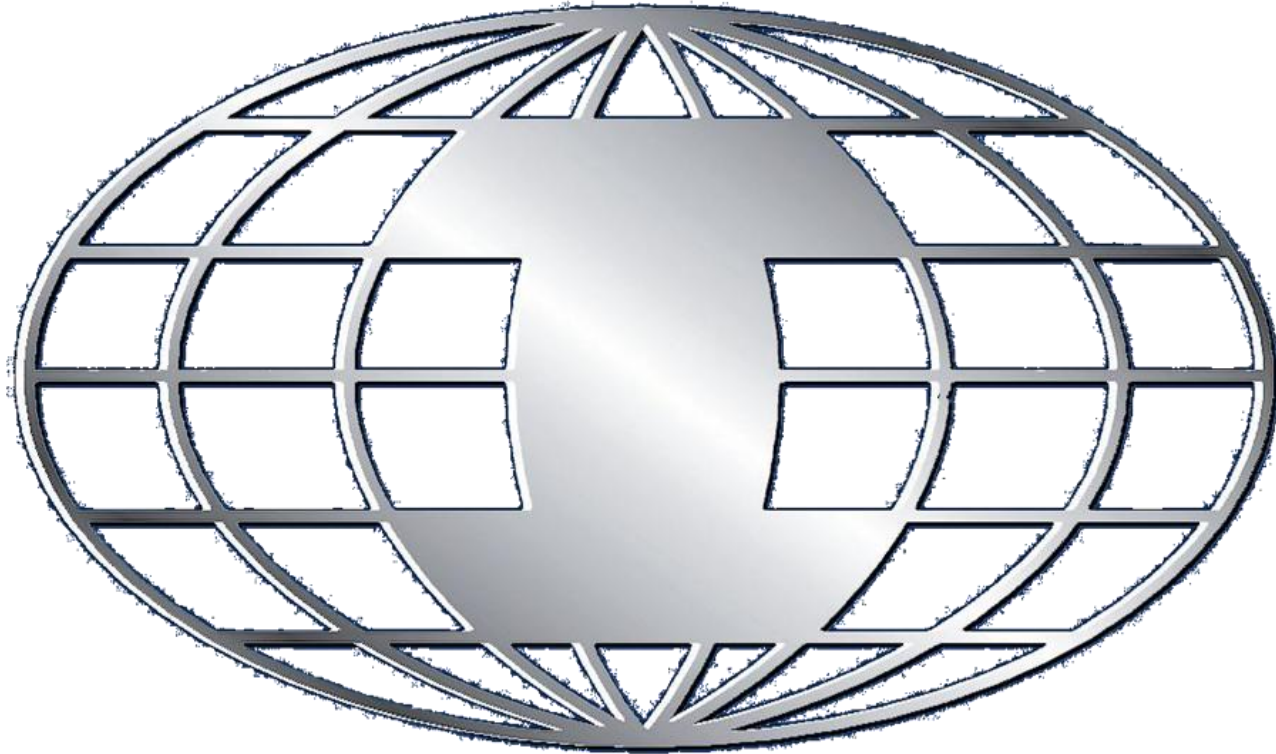
m dwt



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



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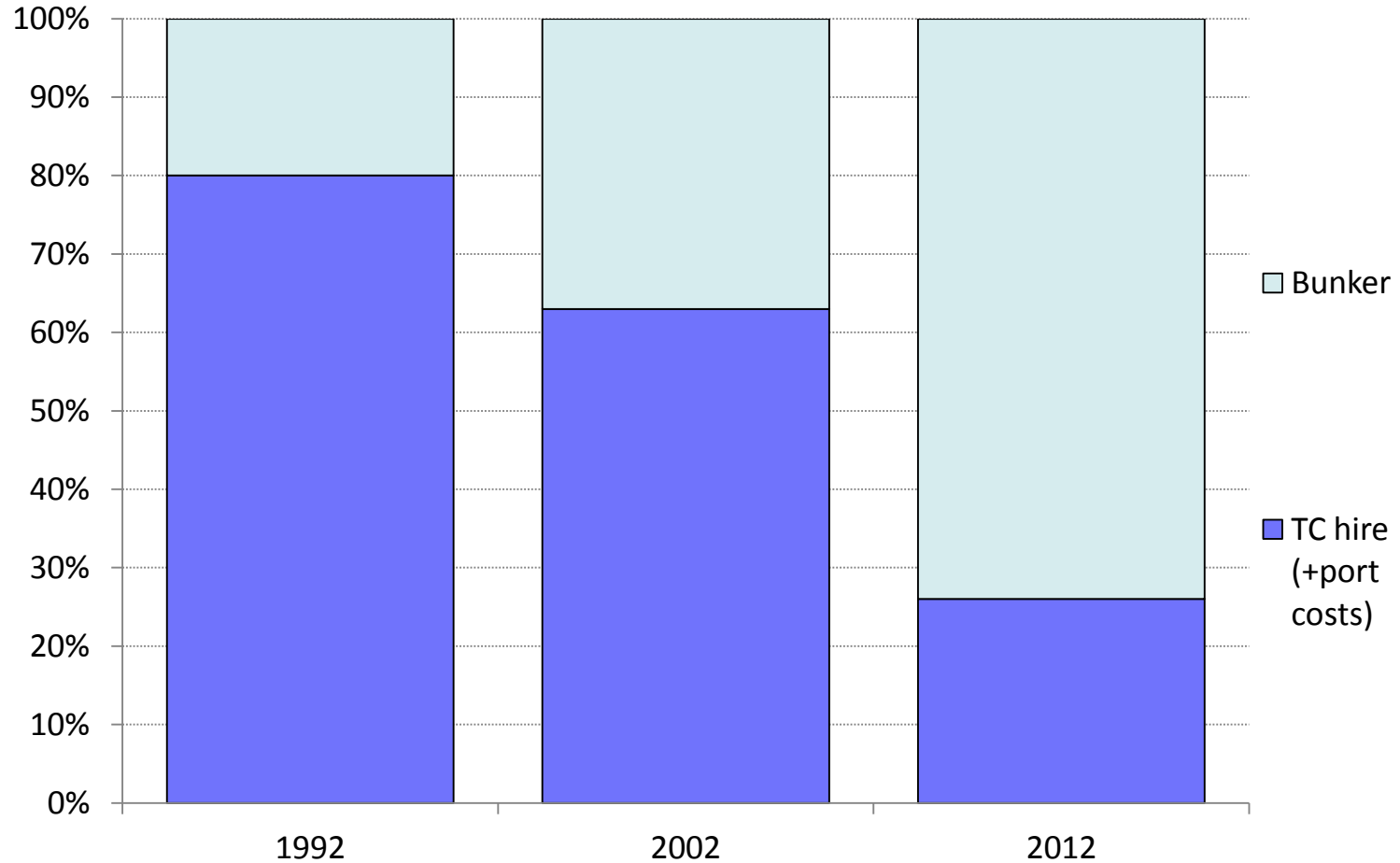


Change in preconditions



Historical VLCC hire and bunker costs

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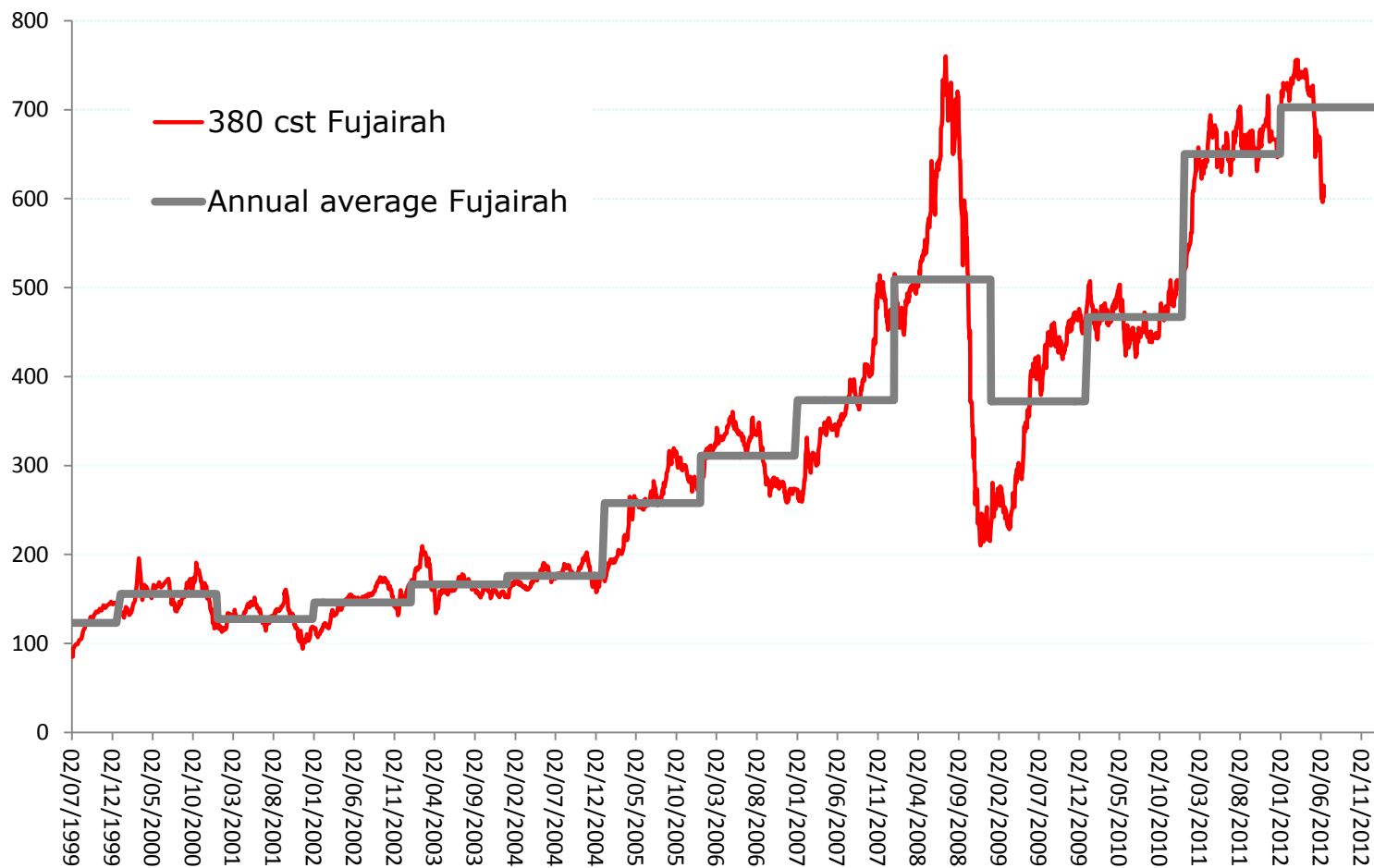




Bunker price Fujairah and basis bunker price WS 380 Cst

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\$/tonne





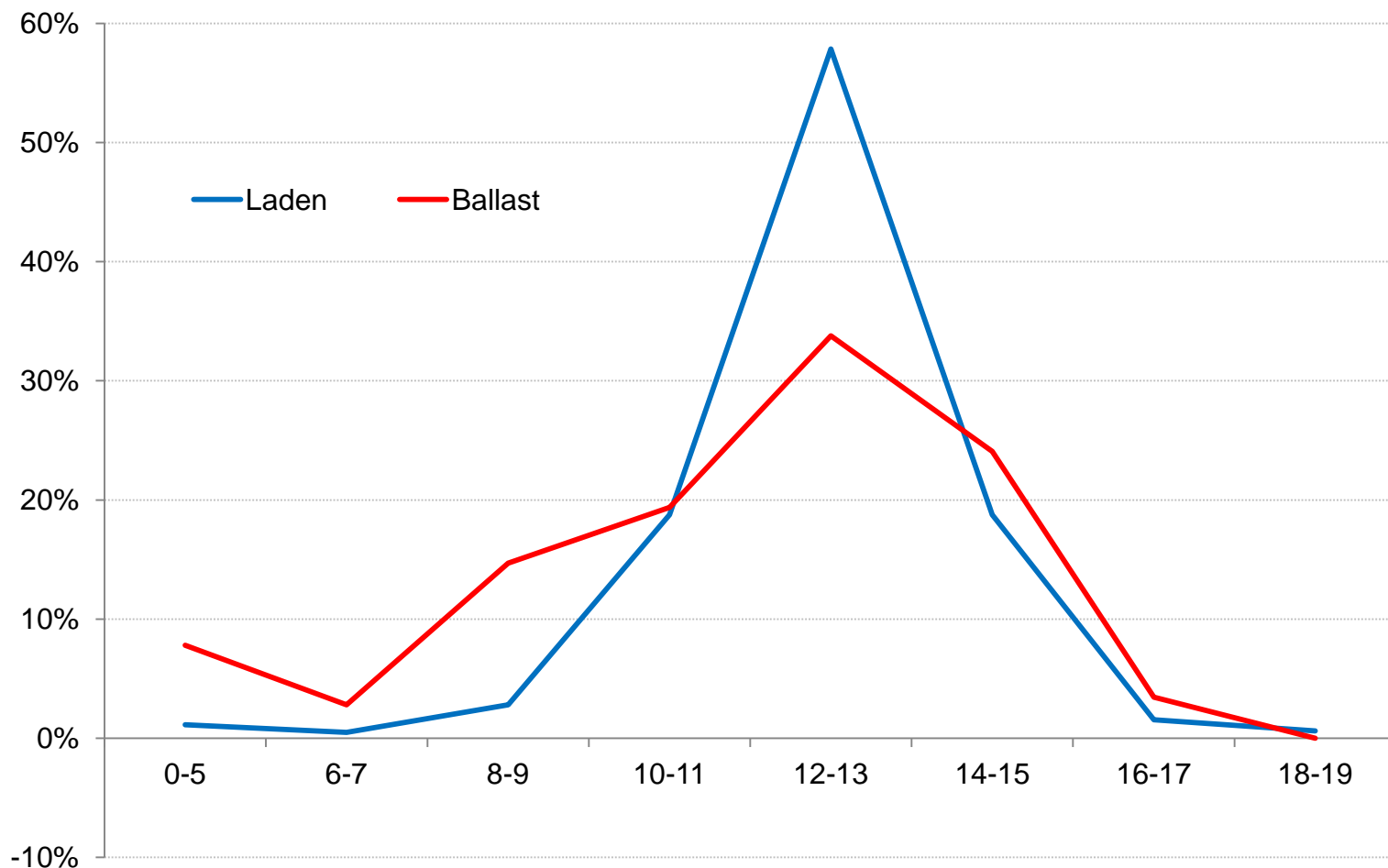
The combination of low freight rates and high fuel prices since 1973 has made it abundantly clear that one can no longer assume constant vessel speed when analysing shipping markets.

Professor Victor Normann/Research Associate Tor Wergeland - *Norwegian School of Economics* 1977.



VLCC speed in laden and ballast conditions

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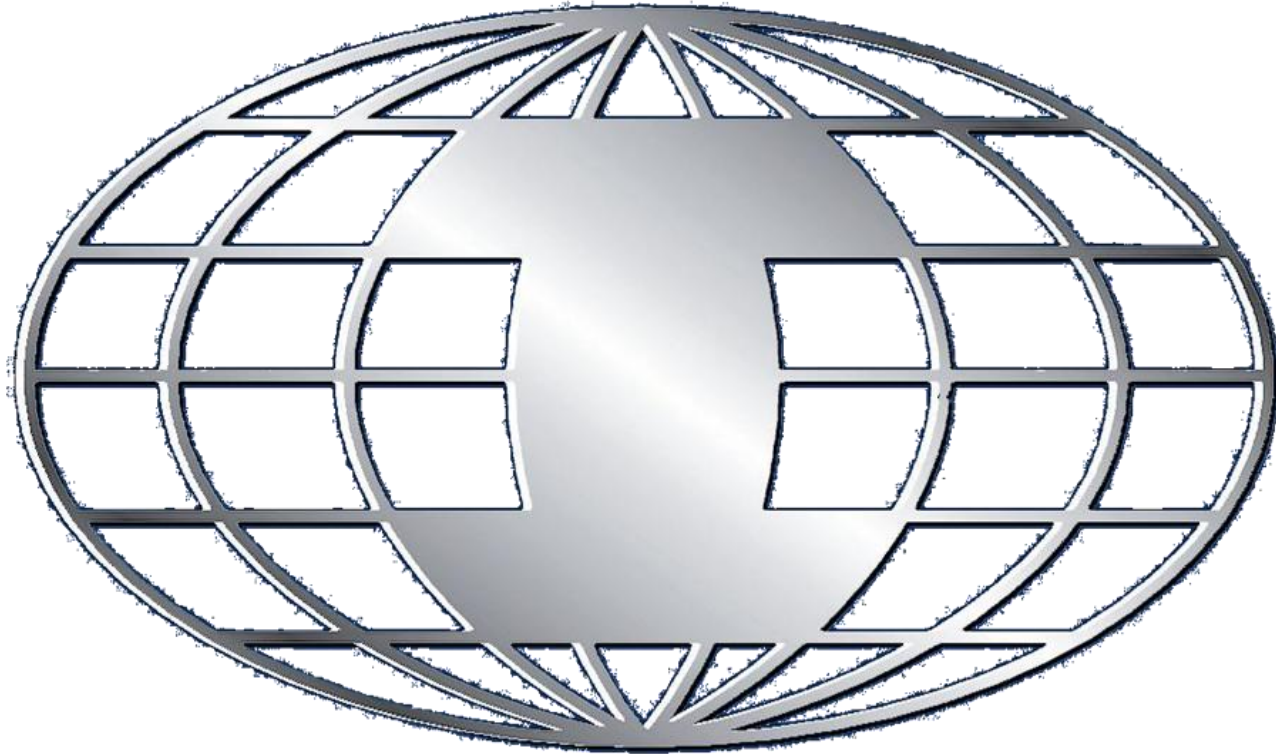


Source: DnB

Speed - nautical miles per hour



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Conclusion



The tanker market

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- 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

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- **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