Shipowners in the dirty tanker segment could look forward to smooth sailing next year with the scrapping of aged vessels, lighter order books – as the global fleet’s expansion will be the lowest since 2001 at an estimated rise of just 1.2% – and more pooling of vessels by owners to boost earnings. Since the second-half of 2008, this segment has been reeling under pressure on excess supply and weak demand, but the scene is changing and could lead to better returns for the shipowners.

In what can arguably be a game changer in the supertanker market and prop up earnings by reducing competition, Tankers International – with its pool of Very Large Crude Carriers – teamed up with Frontline Management to create a new company in October. The new company, VLCC Chartering Limited, will handle around 60 ships, or almost 10% of the global VLCC fleet.

The VLCC segment, which has mostly been in turmoil since the 2008 financial meltdown due to oversupply of tonnage, will see a little over 20 ships being delivered this year, or 4% of current tonnage, while 15 ships will be phased out, said a chartering source with a North Asian refiner.

“The situation will be similar next year, with the fleet size not expanding
significantly. There was a spike in VLCC orders late last year, but they will be delivered only in 2016,” the source said.

Shipowners have been judicious in ordering new ships due to the volatility in the market, which had brought their daily earnings to almost nil in August last year.

“We have no plans to expand our VLCC fleet, and instead the focus is to increase the number of MRs we possess,” said a source with an owner of a tanker fleet. The logic behind this move is that with refineries closing down in Australia and Japan, there will be more trade in clean products.

The average annual addition of new VLCCs in the last five years was 26, while it is expected to be a total of 19 for this year and the next combined, said a shipping research analyst in Singapore.

The rather anemic growth in crude demand has also resulted in shipowners holding back on new orders.

“There are fewer [VLCC] orders now, it is not an easy business to enter because of its capital intensive nature and long gestation period before breaking even,” the research analyst said.

Tanker market watchers point out that there has been a drop in loadings of crude from the Persian Gulf this year, which doesn’t necessarily translate into weak overall demand since many refiners have shifted to the cheaper West African and Caribbean grades.

As more crude flows from West to East in the coming years, market participants contend there may not be enough VLCCs for such long haul voyages. All this will potentially translate into higher freight rates in the medium term.

The industry has had a rollercoaster ride so far this year with the earnings for tanker owners recovering from the post-2010 lows, especially with the VLCC segment experiencing a positive momentum in the second half of the year.

The Persian Gulf VLCC market – largest for this class of vessels – has seen rates rising to a 24-month high in January only to slump on the back of weak demand, before showing signs of revival ahead of the winter demand season.

The year started with a bang, on spillover impact from tight supply of Suezmaxes, weather-related delays and strong tonnage demand, which pushed up rates for the key Persian Gulf to Japan route to 73 Worldscale points on January 22 – a level not seen in two years, according to Platts assessment data.

Baltic and International Maritime Council, or Bimco, an international shipping association representing shipowners said in a report in...
August that the average earnings on the VLCC had briefly touched $50,000/day late January, which later dropped below $20,000/day and recovered close to the $30,000/day levels since July.

The higher earnings in the $50,000/day range couldn’t be sustained as refineries moved into the maintenance season, when typically some of the units are shut and therefore imports of crude are lower, bringing down the demand for VLCCs.

As many refineries have come out of maintenance, the demand for VLCCs has increased and there are also expectations that some among them may be taken for floating storage due to a contango in the Brent crude market in August and September.

**Not easy to come across a shipbuilder making Suezmaxes**

In the crude market, the Suezmax segment’s slow growth in fleet may help in a rebound in rates.

The global order book for Suezmaxes isn’t very large and this may support the freight rates in the medium term, said a source with a Suezmax owner. “You won’t easily come across a shipbuilder who is making Suezmaxes,” the source said.

According to the research arm of a global shipping brokerage, four Suezmaxes have been delivered so far this year and an equal number have been scrapped, keeping the fleet size steady. The total global order book for this year is 14 and for 2015 it is even lower at 8, with a five-year order book of 45, or less than 10% of the current fleet of almost 500.

Tight supply keeps pushing up Suezmax rates from time to time and the trend is expected to continue through 2015.

In January, a lack of Suezmax tonnage in West Africa, the Mediterranean, the Persian Gulf and the Black Sea had even prompted many charterers to combine cargoes for loading on to VLCCs, pushing up the rates. Such a scenario may emerge again early next year as tonnage tightens due to seasonal delays such as cold weather and dense fog, particularly in the Bosporus Straits.

Suezmax tankers typically carry crude or fuel oil in parcels of 1 million barrels or 130,000-140,000 mt and are in strong demand for moving cargoes into Europe.

In fact, the returns for shipowners from the Suezmax is well above expectations, with earnings reaching $44,058/day briefly in mid-July, a Bimco research report said.

“There has been an increase in the number of cargoes going to Europe, pushing up the loadings in West Africa,” said a source with a Suezmax owner. This pulled a lot of tonnage from the Persian Gulf, tightening availability there as well.

**For every new Aframax, two old ones were scrapped**

The smaller Aframax dirty tanker fleet is expected to decline this year, while demand to store fuel oil also provides support to the rates which hit their highest level for the year in August. But, they are likely to come under downward pressure in 2015.
There are close to 900 Aframaxes globally and for every new addition so far this year, two have been scrapped. Still this has helped in only a modest trimming of supply because the total number of ships scrapped is small in absolute terms at 15. According to brokers, 16 new ships will be added to the fleet this year and 41 in 2015.

Pushing for higher rates will be a challenge for shipowners because charterers are spoiled for choice. One trend, which is expected to continue is the consolidation of ships into pools, where several owners come together to offer their tonnage. There are several such pools currently operating, such as Teekay, Heidmar, Jellicoe and Navig8.

“There is a lot of consolidation going on but overhang in tonnage remains,” said an Aframax broker in Singapore. “Spike in rates is not in the interest of oil refiners as they sell cargoes on a delivered basis and this year more than in any other year there has been a change in trading pattern.”

Shipowners are pinning their hopes on more floating storage opportunities coming their way to boost earnings in 2015.

It is commonplace for fuel oil traders to take Aframaxes for floating storage and blending, and when the market is in a contango, such demand gathers steam, as seen in early August.

The key Indonesia to Japan route was assessed at w122.5 on August 15, surpassing the previous high for the year, w122, seen on January 2, Platts data showed. The Persian Gulf to East route was also assessed at a one-year high of w125.

Market participants said trading companies were buying and storing fuel oil, hoping to secure higher returns due to the expectation of rising prices later. It translated into some ships getting locked in short-term time charters for storage purposes in a year that will see just over a dozen new Aframaxes being delivered.

The floating storage conundrum illustrates how the Aframax market is dependent on fuel oil prices, and if the contango disappears, the demand softens. Similarly, rising Aframax rates make spot fixtures more lucrative for owners and help drive up time charter rates as well, eroding the price advantage to traders in storing fuel oil on this class of tankers. This won’t change in 2015 either.

Since the excess supply will spill over into 2015, the Aframaxes will try to do what they do best – pick up whatever cargoes they can from Southeast Asia, for delivering to North Asia and then head to the Russian port of Kozmino, where demand is stable for worldwide shipments of ESPO crude. As Australia shuts down some of its refineries, the number of cargoes moving from Southeast Asia to Down Under have also come down.

As of end-August, the global dirty tankers fleet comprised of more than 1,900 ships aggregating almost 350 million dwt. Maritime researcher and consultant, Drewry, projects a total expansion by only 43 ships or around 8,200 thousand dwt in the segment this year. This translates into less than 3% annual growth both in terms of numbers of ships and deadweight tons. Growth is expected to be even slower next year at 34 ships or 7,203 thousand dwt.