POTEN TANKER OPINION

Mind the Gap!

Poten will start assessing TC rates for both ECO and non-ECO vessels

In 2011, as rising crude oil prices pushed bunker prices to new highs, shipyards started to market new tanker designs. When bunker prices reached $600/MT (for 380cst), fuel accounted for the majority of freight costs, and many tanker owners resorted to "slow steaming" to reduce fuel expenses. Speed proved to be much less important than fuel consumption in this market environment.

Since the first reports of new ECO design vessels surfaced back in 2011, the shipping industry has been divided with regard to the merits of ECO vessels, the need for additional capacity in an already oversupplied market, and how much better they really perform relative to their non-ECO brethren. Another discussion item has been how much of the ECO benefits in terms of fuel savings can be realized by retrofitting existing non-ECO vessels with new technology, such as low friction paint, mewis ducts and/or de-rating the engine and installing a larger propeller. Not surprisingly, where one stood in the debate was frequently a reflection of the make-up of one's fleet (or orderbook).

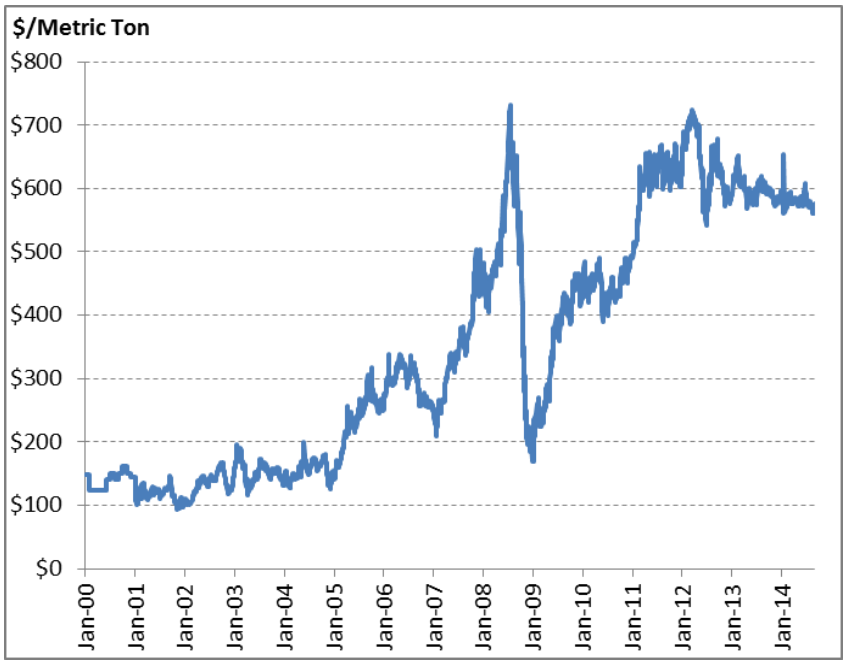
Whatever one might think about the benefits of an ECO vessel versus a non-ECO ship, the reality is that when the ECO design arrived on the scene, it was quickly adopted by all the major shipyards around the world and, ultimately, became the standard for newbuilding orders. Since 2011, an estimated 670 tankers (>30,000 dwt) have been ordered at shipyards worldwide, the vast majority of which can be assumed to be of the ECO variety. ECO vessels have started delivering in large numbers since the second half of 2012. However, these "older" ECO vessels are not as sophisticated and efficient as the newer generation vessels that are on order for delivery in 2015/2016.

To a large extent, the time charter market has bought into the ECO story and ECO vessels have commanded a significant premium in the period market. Poten has observed this two-tier market for some time and decided that it is time to reflect this new reality in its weekly assessments and rate reporting.

Starting next month, two of Poten's signature reports, the Weekly Clean Market Summary and the Weekly Marine Project Report will assess both ECO and non-ECO time charter rates for one, three and five year periods for VLCCs, Suezmaxes, Aframaxes, LR2s, LR1s, MRs and Handys.

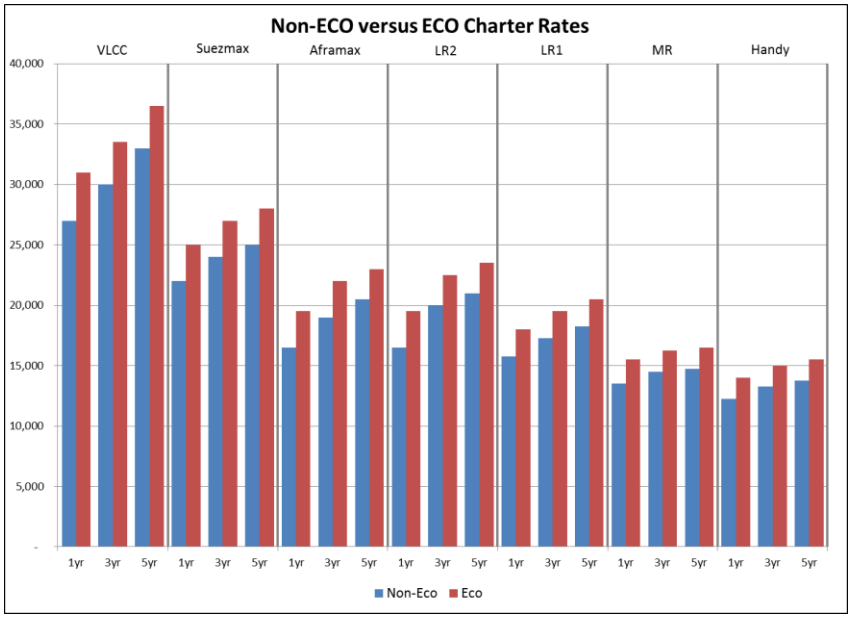
Whether the ECO trend will be permanent or just a temporary phenomenon will largely depend on the state of the oil and tanker market going forward. Under a scenario of falling oil (and bunker) prices, especially in combination with a strong tanker market, the ECO trend toward less powerful, but more fuel efficient engines could well be halted or reversed.

Fig. 1 Rotterdam Bunker Prices (380cst)



Source: LQM Petroleum Services

Fig. 2 Rate Differentials Between Non-ECO and ECO vessels



Source: Poten