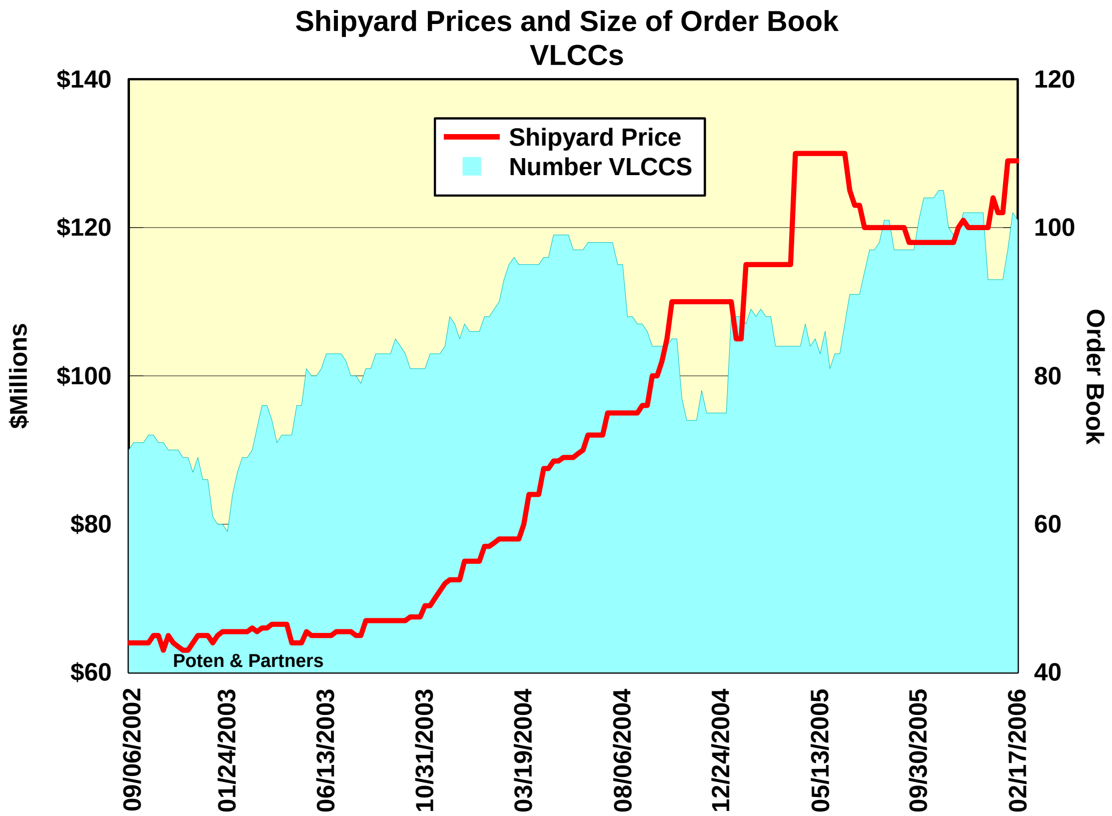
Shipyard Prices: Up, Up and Away?

February 17, 2006

While most of the interest in the tanker market may focus on rates, a much more long-term item, shipyard prices, captures the attention of owners, charterers, investors, and of course, shipyards. A series of VLCCs have recently been ordered for a reported $129 million per vessel for delivery in the period 2008-2010 from a Korean yard. This level of prices may surprise some industry observers who believed that shipyard prices would continue to fall from their previous high of $130 million that occurred in mid-2005 and those who previously thought that $80

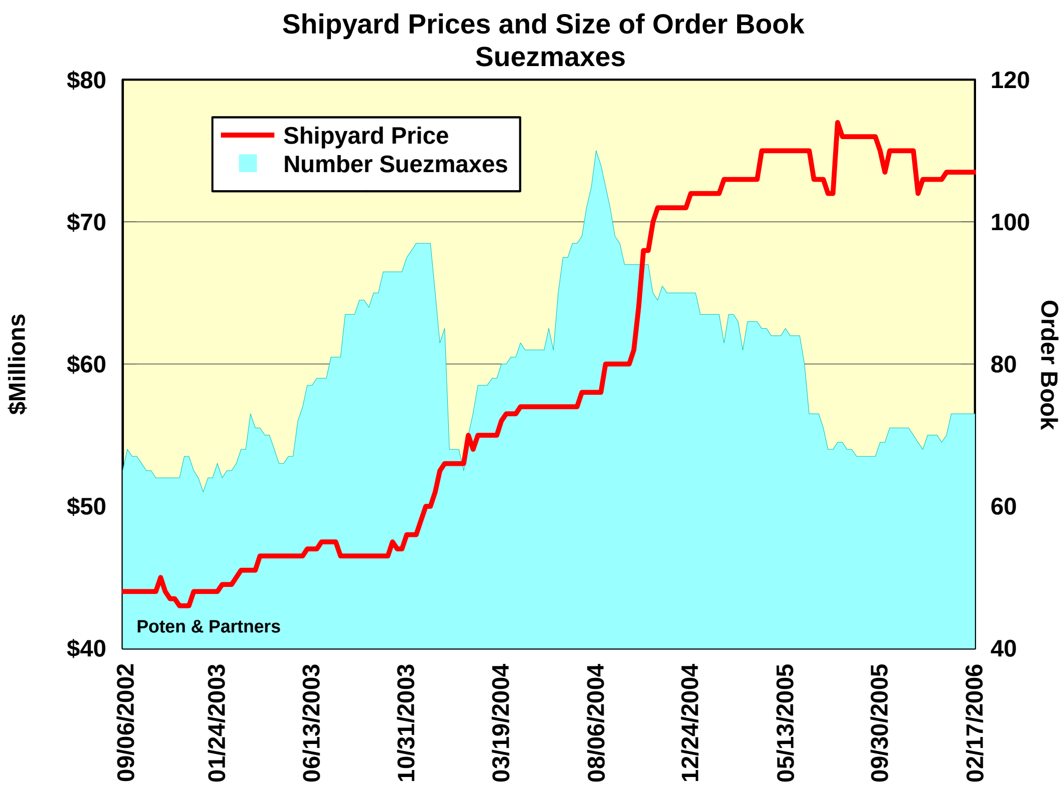


million a few years ago was a steep price. At the same time, two option two VLCCs were ordered for delivery from a yard in China reportedly with a significant discount from the Korean yard price. The previous chart shows the number of VLCCs on order and the shipyard price since 2002.

The VLCC orderbook is back to where it was in the first quarter of 2004 in numbers with shipyard prices back to their former peak values. Modern double hull VLCC tonnage has a second hand value of $116, about $13 million less than newbuilding prices. This is a bit unusual when compared to smaller vessel types that have very little premium between second hand values and newbuilding prices.

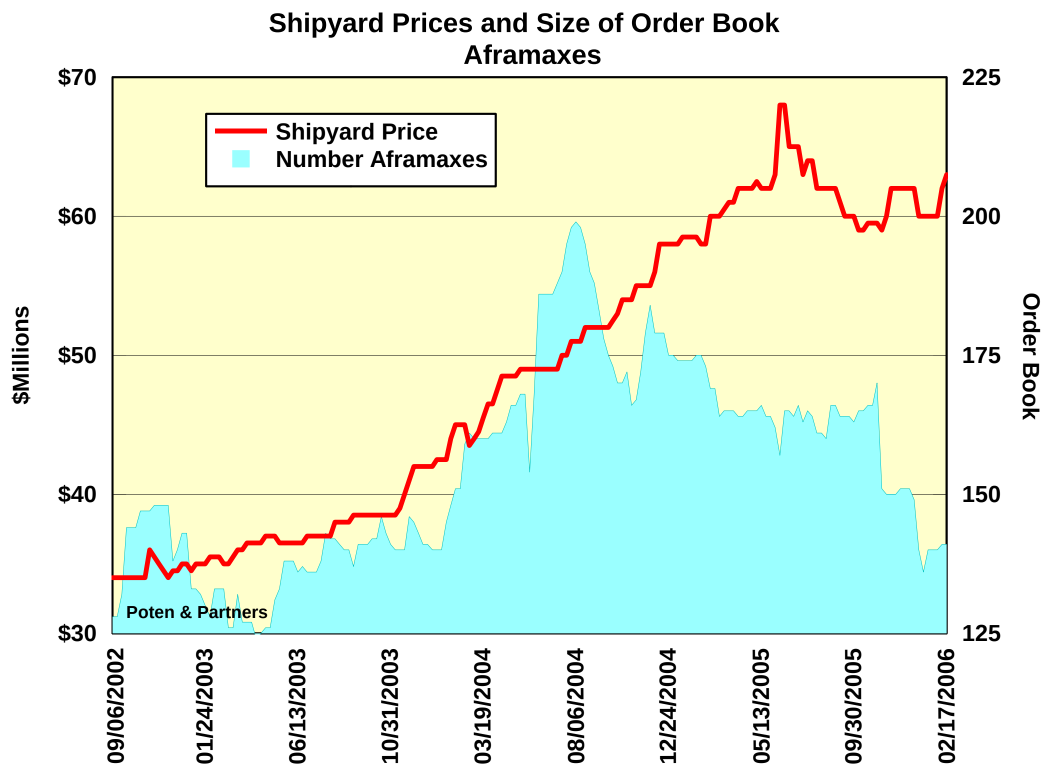
Suezmaxes – Declining Interest

Suezmax shipyard prices have been stable since the beginning of the year with a declining order book ranging between $71 and $76 million with a current price of $74 million. Owners are not as eager to order Suezmaxes as is seen by vessels on order falling from a peak of 110 vessels in August 2004 down to the current level of 73 vessels. While North Sea trades do not hold much promise, the emergence of Brazil as a crude exporter and the coming on stream of the BTC pipeline and increased exports out of West Africa should provide additional trading opportunities. This size category may be being overlooked.



Aframaxes – Cooling in the Breeze

Shipyard prices have cooled a bit since mid-2005 when prices peaked at $68 million in mid-2005. Prices fell slightly below $60 million in the last quarter of 2005 and are now back to $63 million. The order book has gone into a sharp decline since last November from a peak close to 200 vessels to the present level of 141 newbuilding orders. The decreased pace of newbuilding orders lagging deliveries indicates a lack of interest on the part of owners for this vessel category. This might be explained that the owners are looking to increased crude movements out of the Arabian Gulf as the major driver of tanker demand in the future, not the Caribbean, North Sea, Mediterranean trades and intra-regional distribution that keep this fleet segment busy.



There's More to Shipyard Prices Than Tankers

Tankers compete for berth space with LNG carriers, containers, and bulk carriers, and other type vessels. Price escalation is centered on VLCCs, which can be interpreted to mean that shipowners' expect continued strong demand from this sector. It is difficult to decide when to place an order, but everyone who has placed one on the way up has been right. With 40,000 tons of steel in a modern double hull VLCC, and with a $250 per ton increase in steel prices, shipyard prices would have to go up by $10 million just to make up for this.