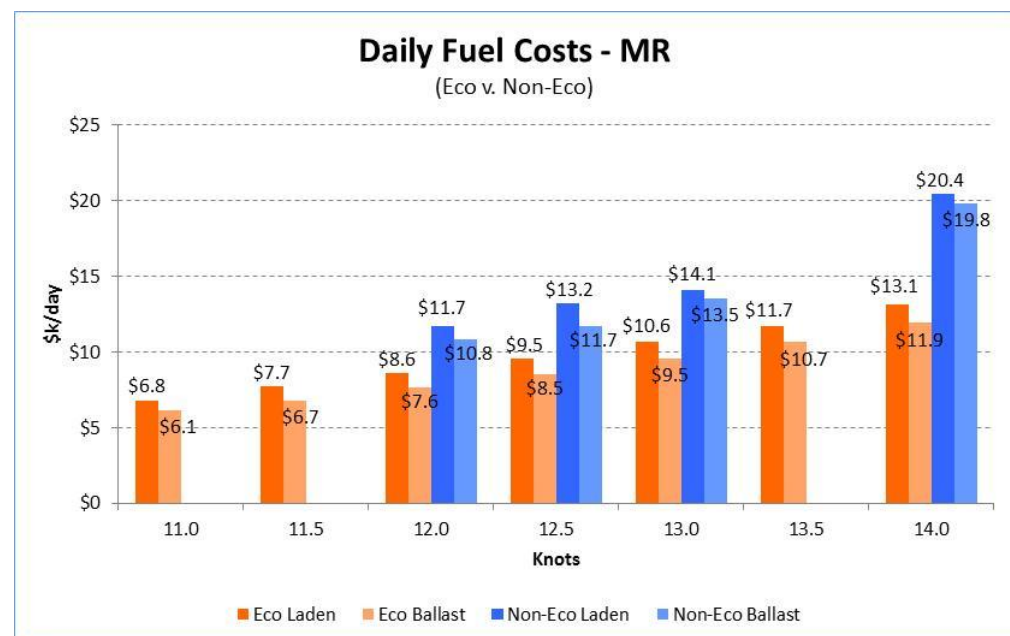


Adding Fuel to the Eco Ship Fire

The historically weak freight environment continues to batter the earnings of tanker companies the world over. The high and low tides of revenue opportunities have introduced a persistent theme of cost control by bringing accute attention to the bottom line. At first, the tightening of the proverbial belt was a concern for charterers as it registered the possibility of slack maintenance – something has got to give, afterall. However now, new technology in the form of eco ships provides a clean opportunity for shipowners to save money without to augment operational integrity.

The most significant voyage costs to shipowners operating in the spot market are bunkers. The continued high oil price environment makes for hefty fuel bills. Since the start of 2012, fuel costs equate to 60% of top line voyage revenue on the Trans-Atlantic MR trade from the UK Continent to the US Atlantic Coast. At today's prices of over \$600 per metric ton for heavy fuel oil and nearly \$1,000 per metric ton of marine diesel, the daily fuel tab for this trade is in the range of \$18,000 per day.

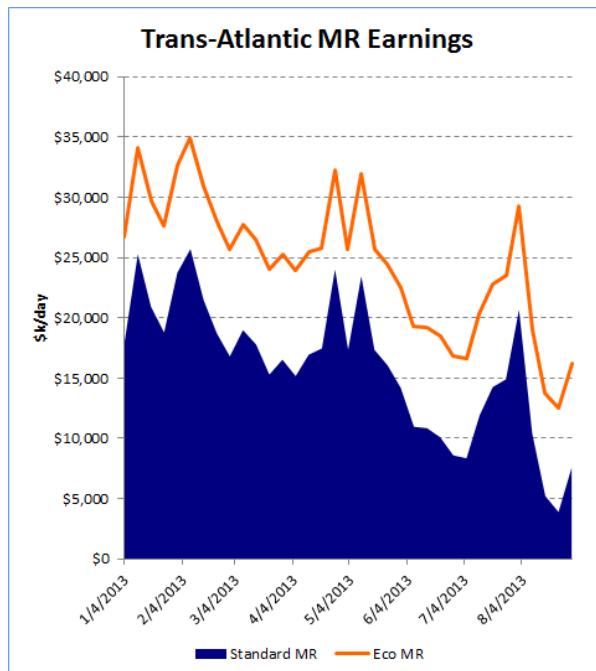
The chart below provides some general insight to the fuel cost savings for eco MRs. For our sample ships, the savings at 12.5 knots laden is \$3,660 per day.



Source: Poten & Partners

The evidence to support a shift to eco-type vessels becomes even more compelling at top speeds for these designs as the fuel savings could be higher still.

Below shows the time charter equivalent (TCE) for the MR Trans-Atlantic trade since the start of the year on the two designs (standard and eco) at 13.5 knots laden and 14.0 knots ballast. The average earnings differential is roughly \$8,000 per day.



	Eco MR		Standard MR	
	Laden	Ballast	Laden	Ballast
Kts	MT/Day	MT/Day	MT/Day	MT/Day
11.0	11.3	10.2		
11.5	12.8	11.2		
12.0	14.3	12.7	19.5	18
12.5	15.9	14.2	22	19.5
13.0	17.7	15.9	23.5	22.5
13.5	19.5	17.8	34	
14.0	21.9	19.9		34

Source: Poten & Partners

At this rate, it is not surprising to see why eco vessels are effectively commanding a premium of a few thousand dollars per day in the time charter market. It is also interesting to note, however that the spot market Worldscale rates do not reflect a two-tiered market in any way. Under present conditions, the net benefits of the eco design are solely recognized by the shipowner in the form of direct fuel savings or the ability to bid more competitively on business.

While the move to eco vessels would seem like a no-brainer to any shipowner, a change in macro market conditions could bring some serious short-comings to bear. First, the discussion surrounding the ability of eco ships to perform at high speeds is far from over. Hull forms and other technical modifications are designed to be optimized at lower speed ranges. Although market conditions that would warrant faster speeds seem to be a distant memory, they should be a consideration when investing in the lifetime of a 25-year asset.

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