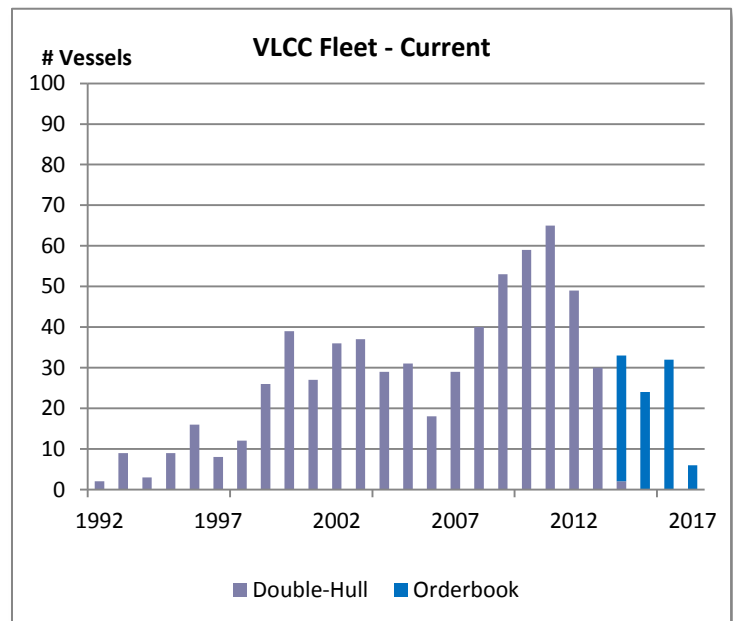
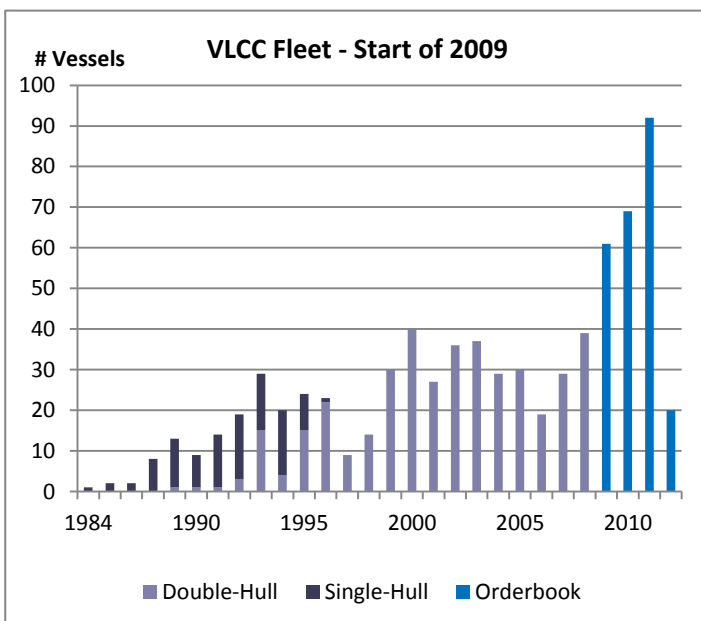


Spring Chickens and More to Hatch

The spate of newbuilding activity across different tanker sectors could be evidence that a lemming-like approach to supply analysis is well underway. Besides the obvious consequence of oversupply, short-term market players seem to propagate the myth that vessels older than 15 years will be forced into an early grave. It is important to remember that the intended useful life of a tanker is 25 years and explicit age restriction policies have never been widely adopted by the oil companies. Historically, older vessels have tended to survive, even when utilization has suffered during periods of slack demand. It is no secret that the tanker fleet is poised for significant expansion over the next few years. Even if freight rates suffer as a result, vessel removals will likely take significantly longer to materialize.

The charts below show the relative age profiles for the VLCC fleet today versus that of the fleet five years ago. The fleet has grown by an impressive 25% since 2009 to its current size of 629 vessels. The orderbook in 2009, however, was an astonishing 50% of the trading fleet – some vessels would never actually be delivered. While today the orderbook is a more modest 15%, the fact remains that the VLCC population is now nearly half comprised of vessels built within the past five years; vessels that could conceivably trade for the next 20.



Source: Poten & Partners

The generally weak freight conditions of the past few years have allowed oil companies to have their pick of the tankship litter. While some companies have policies limiting the age of an asset at the expiration of a time charter, age restrictions could commercially impede the negotiating position of a charterer. Not since the presence of single-hulls has there been absolute discrimination on an age basis. The table below shows the number of reported spot VLCC fixtures regionally and the average and maximum ages of the vessels involved. The average age of the fixtures is generally in line with the average of the fleet, and the maximum age reveals that the older vintage vessels are still finding work.

Reported VLCC Spot Fixtures – January 2013 through today

Load Zone	Average Age	Maximum Age	# Fixtures
Arabian Gulf	9	22	1,819
West Africa	7	19	364
Caribbean	7	19	236
UK Continent	8	15	65
Mediterranean	8	15	19
EC South America	8	16	18
USA	8	14	17
Red Sea	9	19	16
WC South America	12	13	11
WC Central America	6	10	10
Other	8	11	12

Source: Poten & Partners

To the outside observer, the notion that newer tonnage may command a premium in the market is not far fetched. But, since not all ships are created (or maintained) equally, age is merely one factor. Most oil companies would say that technical management and operational integrity categorically trump the age of the asset.

Although trade fundamentals support ton-mile growth for the VLCC sector, additional new ordering will only exacerbate the already fragile supply scenario. Collectively, shipowners and investors should consider a total fleet's size, not just vessels under 15 years of age, lest they find themselves surprised in an overtonnaged market for the foreseeable future.

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