GIBSON
TANKER REPORT

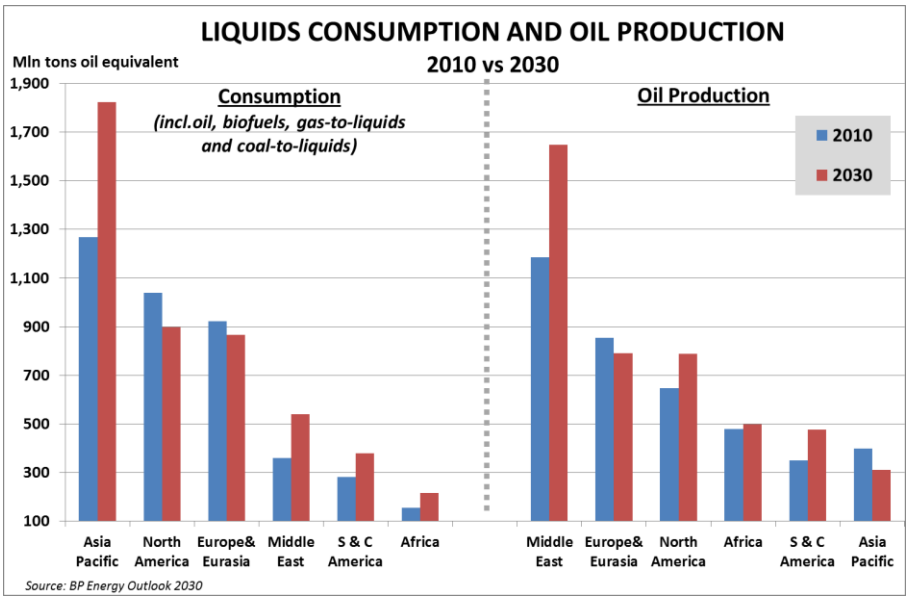
27th January 2012

BP LONG TERM ENERGY OUTLOOK

Last week BP released its long term view of energy markets to 2030. Although the outlook covers all energy sources, for tanker markets the emphasis obviously is on oil. Here, we highlight several points from the BP forecast that are closely related to our industry. Most importantly, BP expects growth in global liquids demand of 16 million b/d (oil, biofuels and other liquids) over the next two decades, rising to 103 million b/d by 2030. This compares with growth of 19 million b/d over the past 20 years. So, the percentage gain is slowing, from an average of around 1.2% p.a. to 0.8% p.a. However, a critical part of the outlook is that only 9 million b/d of the growth is expected to come from crude oil, with the rest coming from biofuels, NGLs and other fuels (incl. processing gains). China and India would account for more than 70% of demand growth, with consumption rising by 8 million b/d and 3.5 million b/d respectively. Demand in OECD countries is likely to fall by 6 million b/d.

Faced with a difficult task of projecting so far ahead, BP's outlook is based on the assumption of accelerating current trends in the energy sector, such as a drive for cleaner energy and greater fuel efficiency. For example, in the transport sector, "efficiency of the internal combustion engine is likely to double over the next 20 years". This incorporates that "sales of conventional passenger vehicles, accounting for nearly 100% today" will decline to a third of total car sales by 2030 and that sales of hybrid cars will dominate. However, BP cautions that if there are no changes to fuel efficiency, car usage and use of alternatives, "oil demand in road transport would increase by a massive 23 million b/d". This huge difference illustrates the importance of technology combined with government/consumer policies and the bearing it will have on our business.

On the supply side, growth in global liquids demand is expected to be met primarily by increasing OPEC production, which would rise by 12 million b/d, with the largest gains in NGLs and crude output from Iraq and Saudi Arabia. Considering strong demand growth in developing Asia, increasing OPEC production is likely to be destined for these markets. Interestingly, BP anticipates that the Americas will largely become energy self-sufficient by 2030, due to strong growth in Canadian oil sands, Brazilian deepwater projects and US shale oil, as well as US and Brazilian biofuels. For tanker markets, this could mean the loss of long-haul trade from the Middle East.



All in all, the above trends will have major implications for the tanker markets. Although at present the immediate threat for the industry is tonnage oversupply, in the long run factors such as slowing demand, environmental concerns, fuel efficiency and technological advances will be amongst the main drivers that will shape the future of the oil markets and with it, demand for tanker transportation.

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CRUDE

The Chinese New Year converted largely into a 'closed period' for the VLCC market in the Middle East Gulf - certainly for the first half of the week. Thereafter a little more was seen, but volumes remained very much on the light side. The slowdown didn't take long to work against Owners' sentiment, and by the weeks' end, rates had re-corrected to around WS 56 East and WS 37 West with some further settling possible, before any turnaround can be engineered.
Suezmaxes also quietened, but availability remained tight enough to allow for rates to 'outperform' the thin supply, and rates stayed close to 130,000 by WS 100 East, though little better than WS 50 was available on relocation voyages to the West. Aframaxes stayed poised over the period and operate at the 80,000 by WS 110/115 mark to Singapore with premiums of over 10 worldscale points payable for Red Sea loadings.

Charterers in West Africa started with Owners well under control, and managed to draw the market down a few worldscale points. Discipline was lost for a short while, however, and the mini flurry of activity allowed Owners to regain the lost ground to end at 130,000 by WS 77.5 US Gulf, WS 82.5 U.K. Continent, though any further gain will yet again be dependent upon Charterers game-plan. VLCCs are in very short 'local' supply, but ballasters from the East became very keen for round trips as the Middle East softened. Rates to the East therefore fell off to around 260,000 by WS 57.5 with runs to India moving back below USD 5 m.

Aframaxes remained stuck in the Mediterranean mud with the best that can be said being that enquiry was steady. Unfortunately for Owners it wasn't sufficient to prevent rates from scraping bottom at 80,000 by WS 80 cross-Mediterranean, and no new dawn in the near term. Suezmaxes were fed a poor diet, but it wasn't quite starvation rations, and rates eased, rather than crashed, down to 135,000 by WS 82.5 from the Black Sea to European destinations with WS 70 the mark for Mediterranean/States runs. East demands seemingly more and more, however, and for those that will go there, rates of nearly USD 4 m are being paid for China discharge.

Caribbean VLCCs stayed immune to the influx of Eastern ballasters that had diluted the West African scene and generally kept their heads up at USD 5.3 m+ for Caribbean/Singapore movements, though some of the weaker sentiment may eventually filter down. Aframaxes had a better week of it than feared as Charterers pushed enough cargo to firm the market to 70,000 by WS 130 upcoast, but there's little confidence in the run continuing for long.

The North Sea broke sharply lower in the aframax sector with rates falling back to 80,000 by WS 97.5 cross U.K. Continent, and to 100,000 by WS 105 from the Baltic on a badly weighted supply/demand balance for Owners. Suezmaxes saw little transatlantic, but there was reasonable demand to the East where rates of up to USD 3.9 m were seen to Singapore for fuel oil. VLCCs stayed few and far between, and rates held fairly steady at a little over USD 5 m for Singapore, and near USD 7 m for South Korea with little early change forecast.

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PRODUCTS

Unfortunately week 4 saw poor markets both East and West of Suez.

A sparingly busy week with most of the Far East closed for Chinese New Year. LR1s saw most of the activity with rates edging up, especially on the earlier dates. 55,000 mt AG/Japan is now at WS 105 levels but higher rates may be paid in the first decade. 65,000 mt Jet AG/U.K. Continent looked likely to hit USD 1.80 m but has faltered slightly and slipped back to USD 1.75 m. LR2s have seen very little though this week and rates are static with 75,000 mt AG/Japan at WS 90 and 80,000 mt Jet AG/U.K. Continent at USD 2.35 m.

The MR's in the Middle East have seen a torrid week with only weaker rates to report at the weeks end. For 35kt naptha AG-West Coast India/Japan levels have slipped to the WS 105 levels; now under what is pushed on the LR1's. Apart from contract movements 40kt Jet from the AG/U.K. Continent is largely dead with the Arb shut but a new low was reported at the weeks close of USD 1.325 m for a West Coast India load; this would put Kuwait loads at the 1.375 m level. Ex AG's were quiet too with levels in the USD 180 level for a Jubail/Jebel Ali run. AG/East Africa and South Africa runs this week have been very quiet; market assessed at 35kt x WS 172.5 for both at this stage.

The Far East has been predictably calm with only a few short haul voyages clearing the prompt positions in Singapore. With China back in their chairs as of Sunday (the working calendar having been changed around this week to adjust for their lunar calendar) we should see a busier market next week. For the sake of assessment, the main hauls are assessed as follows: 30kt Singapore/Japan at WS 120, 30kt Singapore/Australia at WS 150 and Full cargo backhauls from South Korea/Singapore USD 375k for a large MR.

A woeful week in the Mediterranean market, as confidence in the market faltered. Slow cargo enquiry for short haul business resulted in cross Mediterranean rates coming off sharply to 30 at WS 170 levels in the face of building tonnage, with next done expected to be less. A trickle of Black Sea gasoil and naptha exports, further dampened Owners spirits and this market is fixing is continuing to fix in parity with the cross-Mediterranean market 30 at WS 170 levels. The beginning of the week was a bit more lively on the long-haul front, with some interest for moving UMS parcels on the MR's both East and West; ideas arranged around USD 1.0 m/1.1m levels for Red Sea/ AG respectively and market now considered 37 at WS 140 levels for the US Atlantic Coast in line with TC2.

A disappointing week on the Continent as rates come under pressure due to a lack of cargo enquiry. A longer list of ships for transatlantic runs meant rates fell down to WS 140 basis 37,000 mts of UMS, on subjects at time of writing. Imports into West Africa remain steady with MR's securing the same as transatlantic; for rate purposes, smaller clips of CPP 33x155 level. In North West Europe short haul runs of CPP loading ex Baltics secured WS 185 basis 30kt and 217.5 for tranches of 22kt. More activity towards the end of the week for the LR's rates are now trading around 60 x 125-130 for mogas destined to West Africa and to the States. Further discharge options to the Arabian Gulf were arranged around USD 1.4-1.5 m.

The Caribbean market has suffered another slow week. Tonnage continued to build in the USG area, and a severe lack of upcoast enquiry (not helped by the temporary 'turnaround' closure of the Hess Refinery in St Croix) kept freight prices at WS 130 basis 38kt. Backhaul liftings fell to WS 65 basis 38kt (on subs at time of writing), however this market hanging around WS 65-70 as Owners claim there is no point fixing at these levels.

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