The Search For Clues

- The last five years has been full of surprises
- In the last 50 years tanker booms lasted less than a year
- When will the next one come?

The Next Boom?

- Demand driven cycles
- Supply driven cycles

Agenda For Today

1) Tanker Market Today
2) Economic Fundamentals
3) Newbuilding
4) Supply-Demand Balance
5) Demand Trends
6) FSU Oil Trade
7) Deliveries
8) Scrapping
9) Freight Rate Forecast
10) Conclusions

Part 1

The Tanker Market Today
This chart shows average earnings today for the ship type, as a % of the average earnings during the last 7 years.

### 7 Year Tanker Perspective

The market peak in 2000 was a massive deviation from the 10 year trend in tanker earnings. Rates still not hit bottom.

### Laid Up Tonnage

- Things may seem bad, but the market is still tightly balanced
- Laid up tonnage is still low – so from a market viewpoint this is not the 1980s
- Or the early 1990s

### Tanker Demolition

Fast Demolition Response

### Aframax 2nd Hand Price

Prices only back to where they were three years ago.
Part 2

The Economic Fundamentals

Oil Price back to 1990s

Average
- After two years of high rates, oil price under $20/bbl
- Time lag of about 2 years between price change and impact on consumption
- Short haul production is increasing

Lower interest rates
- LIBOR has fallen to 1.9%, the lowest level since the early 1960s recession
- The cost of capital is one third what it was a year ago
- US Treasury model says 0.6% increase in GNP for each 1% fall in interest rates

Part 3

Shipbuilding Capacity

Shipbuilding Deliveries Forecast
- We are now at the peak of the replacement cycle
- Shipyard capacity is 49 m dwt, but demand likely to drop to 30 m dwt
- Timing will depend on how much oil is sourced in the Middle East
The Shipbuilding Capacity Issue

- Deliveries 47 m dwt in 2001
- Timing of old ships scrapping crucial

Tanker Replacement Demand Now Covered by the Orderbook
- The replacement demand under the IMO phase out programme is 62.2 m dwt
- At end Feb 2002 the tanker orderbook was 62.3 m dwt

VLCC Building Capacity
- The VLCC building capacity is currently about 50 ships a year
- There is no replacement demand before 2005 and the demand to meet trade growth is 40-60 ships

So the shipyards look like having a problem...
- Share of deliveries 1994 to 2001 (including orderbook)

Aframax Tanker Price
- Trough 1996 - all shipyards lost money
- Asia Crisis & Won devaluation cause dip in prices
Part 4

Supply-Demand Balance

Tanker demand grew by 59 m dwt between 1990-99 but the fleet grew by 23 m dwt less. The balance is tight, so future deliveries and scrapping matter.

Part 5

Tanker Demand

The tanker fleet added 52 m dwt in the 1990s. Growth came from:
- USA: 17 m dwt
- Europe: 5.4 m Dwt
- Japan: 6 m dwt
- Other: 25.6 m dwt

The forecast adds 46 m dwt by 2007, 7 m dwt a year.

World Oil Demand To Grow

- Correlation between oil demand and sea trade
- Oil trade (crude & products) grew by 1.04 m bpd pa in 1990s
- Demand stagnant in 2001, down from 7 m bpd in 2000!
- Oil demand expected to grow by about .5 m bpd in 2002 & .7 m bpd in 2003

US Oil Imports

Since Jan 1997 US imports have added 20 m dwt of tanker demand, due mainly to the switch from short to long oil.
**US Products Import Boom Over**

- In 1990s products imports averaged 1.5 m bpd
- In January 2001 they hit 2.77 m bpd
- 230,000 bpd came from Middle East, 150,000 bpd from Europe
- Now back down to 1.6 m bpd

**Asian Importers**

- Imports of “other Asia” have increased from 3.4 m bpd in 1990 to 8 m bpd in 2000
- Korea and “others” are the biggest, but note China coming up fast
- India took a big jump when the Reliance refinery came on stream
- Another 2.5 m bpd by 2007?

**Spot Crude Oil Shipments**

- Oil shipments took a big dip in 2001

**VLCC Spot Shipments Slump**

- This is a 20% drop in monthly cargo

**Russian & Caspian Oil**

- In terms of oil reserves and production, Russia is still one of the world’s leading countries
- This year it will be second only to Saudi Arabia as an exporter
Part 6
FSU Oil Trade

FSU Oil Revenue & Exports
- Oil is a major issue for Russia and the tanker market
- Russian and Caspian oil resources play a major part in future of tanker demand
- Graph includes products

Fig 6

Russian Oil Trade

The Caspian
- Caspian oil exports were .84 m bpd in 2000
- Forecasts show 1.5 m bpd by 2005 (1.2-2.1 range) & 2.6 m bpd by 2015

Many Pipeline Projects

Oil is a major issue for Russia and the tanker market. Russian and Caspian oil resources play a major part in future of tanker demand. The graph includes products.

Caspian oil exports were .84 m bpd in 2000. Forecasts show 1.5 m bpd by 2005 (1.2-2.1 range) & 2.6 m bpd by 2015.

Many pipeline projects are underway in the region.
The Baku-Ceyhan Pipeline

25 Year Tanker Perspective

Heavy deliveries 2001/2

The Tanker Orderbook

- The tanker orderbook is 63.7 m dwt
- The chart opposite shows deliveries in cgt by quarter
- The delivery profile peaks in the 1st quarter of 2003

Tanker Deliveries & O/B

- The number of tankers delivered will almost double in 2002
- Volume will pick up further in 2003
- This is a challenging target

Tanker Orderbook % Fleet

- VLCC: 26, 38, 34
- Suezmax: 15, 26, 29
- Aframax: 14, 43, 66
- Panamax: 4, 9, 22
- Handy: 65, 119, 137
- TOTAL: 124, 235, 288
Part 8
Demolition

Tanker Fleet & Demolition
- The tanker fleet grew by 37 m dwt in the 1990s
- It peaked at 296.7 m dwt in October 2001
- Today it is down to 288.1
- This is real dynamic adjustment!

Today it is down to 288.1

This is real dynamic adjustment!

Part 9 The Forecast
- That's a lot of information
- What does it all mean
- The forecast for average tanker earnings is
  - Down 40% this year (compared with 2001)
  - Up 20% next year
  - Up 45% in 2004 (if you play your cards right)

Tanker Forecast
- Quarterly earnings forecast
10. Conclusion….

- Weak fundamentals, but no sign of structural threat
- Record deliveries of 25 m dwt & looming shipyard capacity problem
  - cheap tankers?
- Tankers balance still tight, but heavy orderbook and weak demand outlook.
- Supply responding pretty fast, so expect improvement next year