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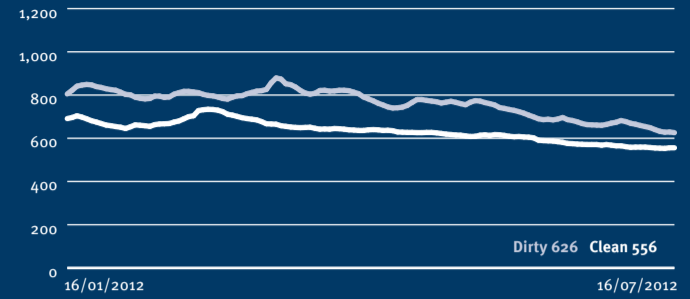


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Lloyd's List

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BALTIC TANKERS, PREVIOUS SIX MONTHS



Source: Baltic Exchange

Fourth special survey takes toll on oil tanker demolition

EXCLUSIVE

Average age of actively traded ships beached for breaking in 2012 falls below 20 years

Liz McCarthy

THE high cost of a fourth special survey versus medium-term earnings for crude tankers is showing its force in the demolition market, as the average age of trading vessels being beached so far in 2012 has fallen below 20 years, according to data from Lloyd's List Intelligence.

As steel replacement costs tend to increase as vessels get older, the price of a five-yearly drydock special survey has become high compared with the earnings a ship over 20 years of age can achieve, as newbuilding deliveries have increased competition in the chartering markets.

Add into the mix the fact that many owners simply do not have enough cash to justify paying for surveys on older vessels and the result has been a rapidly rising number of first generation double-hulled crude tankers being broken.

"I think this is the youngest tanker fleet ever in terms of age. The sheer number of newbuildings has put pressure on the market and there is significant competition," Gibson Shipbrokers head of research Steve Christy told Lloyd's List.

"We're in a weak market with weak prospects, so as an owner, do I want to spend X million dollars on high steel replacement? Is it worth continuing to trade?"

Although Lloyd's List Intelligence counts 44 crude tankers becoming dead vessels in the year to date, only 28 of these ships were actively trading prior to coming ashore, as the other 16 were either laid up or being used for floating storage in areas such as Malaysia.

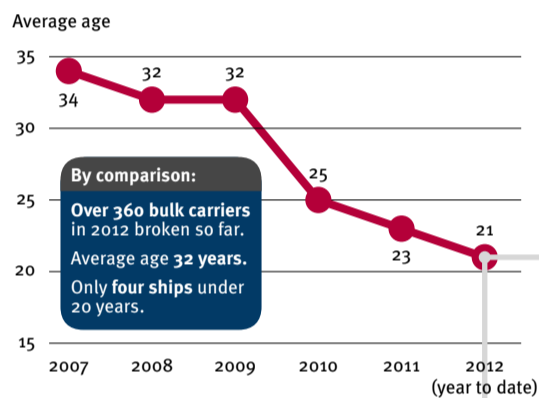
Overall, the average age of crude tankers beached so far in 2012 is 20.7 years. However, once the older single-hulls that had not been trading are removed from the equation, the 28 active tankers beached had an average age of just 19.5 years, bringing this in line with the fourth special survey that would be due at 20 years.

Of the previously trading tanker vessels, 19 of them were 20 years of age or younger, with the most extreme case being a 14-year-old MOL very large crude carrier beached in India in January.

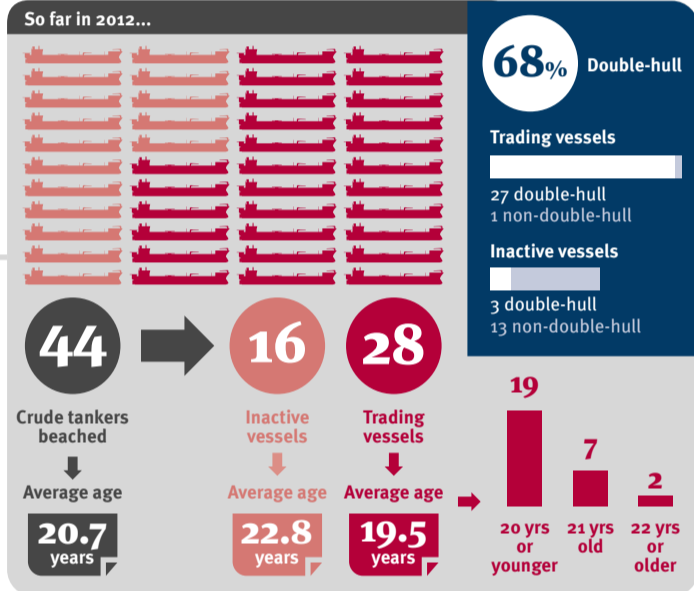
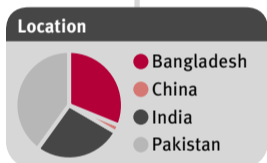
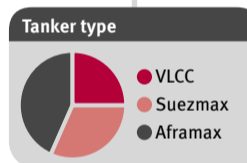
"Even just a few years back, we would have thought a tanker would trade until around 25 years of age. So

CRUDE TANKER DEMOLITION

Vessels beached and classed as dead at breaking location



By comparison:
 Over 360 bulk carriers in 2012 broken so far.
 Average age 32 years.
 Only four ships under 20 years.



Source: Lloyd's List Intelligence



Of the inactive tankers that were beached in the year to date, the majority did not have a double-hull and had an average age of 22.8 years.

where it used to be the fifth special survey that was a critical point, it is now the fourth special survey," Mr Christy said. "But I think anything ahead of the third special survey is an exception and won't be the norm."

Only one of the trading tankers identified by Lloyd's List Intelligence was non-double-hulled, with the rest made up of first generation double-hulls, which were introduced in the early 1990s following the Exxon Valdez oil spill and regulation from the International Maritime Organization.

By comparison, of the inactive tankers that were beached in the year to date, the majority did not have a double-hull and had an average age of 22.8 years.

However, even these vessels signal a decline in demolition age, considering that in 2009 the average age of crude tankers beached for breaking was 32 years, according to Lloyd's List Intelligence.

In contrast, for the dry bulk sector, this is still the average age of vessels that have died in 2012, with the data indicating just four bulk carriers under 20 years being beached for breaking this year.

The Lloyd's List Intelligence dead vessels data varies slightly from demolition figures reported by shipbrokers, as rather than listing ships when they are committed as sold for scrap, it only includes them once they have been brought ashore and are

"When a single-hull is scrapped today, it's not going to have that big an impact on the market; it is the double-hulls that are going to affect the trading fleet"

Steve Christy, Gibson Shipbrokers

officially removed from service. As an example, while the data shows 30 double-hulled crude tankers as being beached so far this year, Gibson reports 25 double-hulled vessels being sold for scrap. It expects this number could double by the end of the year, with a similar forecast for 2013.

"When a single hull is scrapped today, it's not going to have that big an impact on the market; it is the double-hulls that are going to affect the trading fleet," Mr Christy said.

With the Baltic Exchange reporting earnings in negative territory on the benchmark Middle East to Asia VLCC route, and charterers opting to charter vessels under 15 years or invariably younger, the number of double-hulled vessels being sold for scrap is set to continue. However, a lot more need to head for breaking to rebalance market fundamentals.

But as Mideast Shipping and Trading general manager Steve Wansell, a London-based cash buyer, points out, this is one of the only industries where owners can make a significant amount of money when selling a ship for demolition.

Although down from levels of around \$22m seen last year, a VLCC can still achieve around \$17m in the scrap market, a figure that should not be sniffed at.

Mr Wansell added that in contrast to the boom years, when money for special surveys could be borrowed, it now has to come out of the owners' pockets: "Most owners are financed up to the hilt and not many are cash rich. Whereas in the past it was very easy to knock on the bank's door to get bridge finance that could be added on to the back end of the loan, today it is a very different environment." ■

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NEWS HIGHLIGHTS

Piracy attacks fall in Somalia
 Piracy in Somalia has fallen sharply for the first half of 2012, while the Gulf of Guinea has experienced a worrying increase in attacks, the International Chamber of Commerce's International Maritime Bureau's global piracy report has revealed.2

Refusal of voyage simplified
 The legal issue of rejecting a voyage because of the consequent exposure to war risks has been simplified by a recent decision involving the Conwartime clause.2

Tugs head to abandoned ship
 The fate a German-owned containership on charter to Mediterranean Shipping Co that was severely damaged by an explosion at the weekend will not be known until the first tug arrives on the scene.3

Fairstar yields to buyout
 Fairstar Heavy Transport has thrown in the towel in its fight against a takeover bid from Dockwise, after reaching agreement with the bidder on the recommended acquisition of all remaining shares.3



Politics of climate change
 International Chamber of Shipping questions the International Monetary Fund assertion that international transport should pay 25% of the UNFCCC Green Fund.4

K+N outperforms the market
 Softened demand from Asia to Europe and North America slowed Kuehne+Nagel's sea freight and air freight volume growth in the first half of 2012, although it outperformed the market.5

Indian ruling splits scrap market
 India's Supreme Court tightened the environmental standards applied to the country's shipbreaking industry last week, raising fears that the move could temporarily shut down the Alang market.8

VLGC rates to hit record high
 Gas carriers shipping large cargoes of Middle Eastern liquefied petroleum gas to Asia on the spot market are earning more than they have over the past eight months, as fresh supplies of LPG come on to the market for loading at Middle Eastern terminals in late July and early August.9

