

Impact of new regulations on the tanker market

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PARTNERS



Ballast Water Convention 8th September 2017

MEPC 71: Industry
proposal for existing
ships to be required to
install systems on their
2nd IOPP renewal from
implementation date





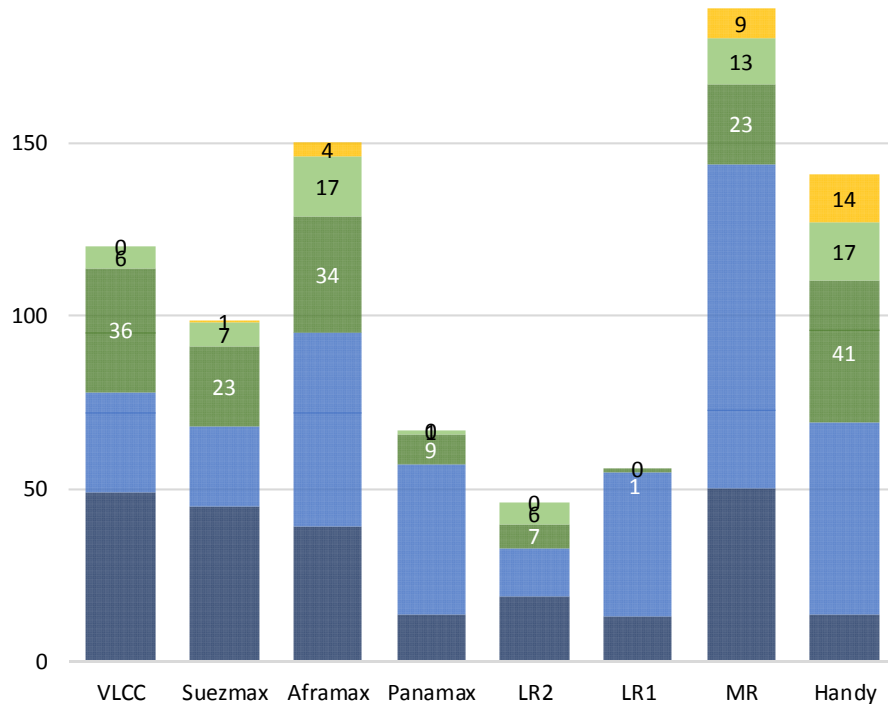
Special Survey Schedule & Ballast Water Management

Indication for installations of ballast water management systems in 2017 & 2018

No. Vessels ■ 1st ■ 2nd ■ 3rd ■ 4th ■ 5th

2017

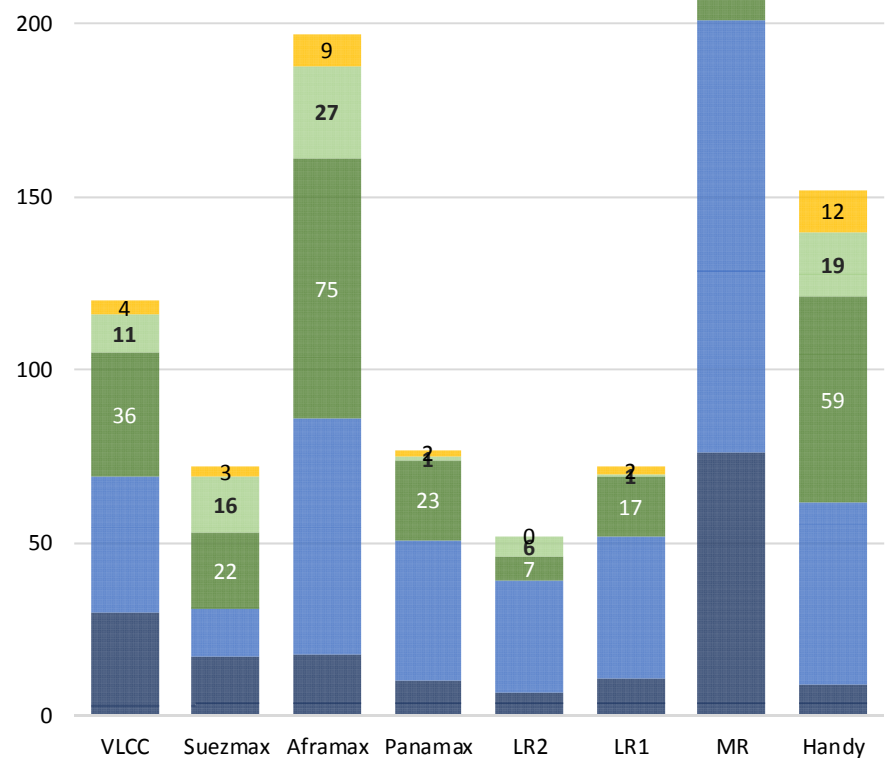
We expect these vessels to rush to get their dry docks and/or IOPPs completed before the implementation date, helping to hold a floor on rates in the difficult Q2-Q3 but load the market with ex-dry dock ships around September. De-harmonising the IOPP certificate may create a double dry-dock on the next renewal as it will fall close to the next special survey. It is also uncertain how charterers and ports would react to de-harmonisation and thus it may affect vessels' earnings potential in all of spot, TC and S&P markets.



No. Vessels ■ 1st ■ 2nd ■ 3rd ■ 4th ■ 5th

2018

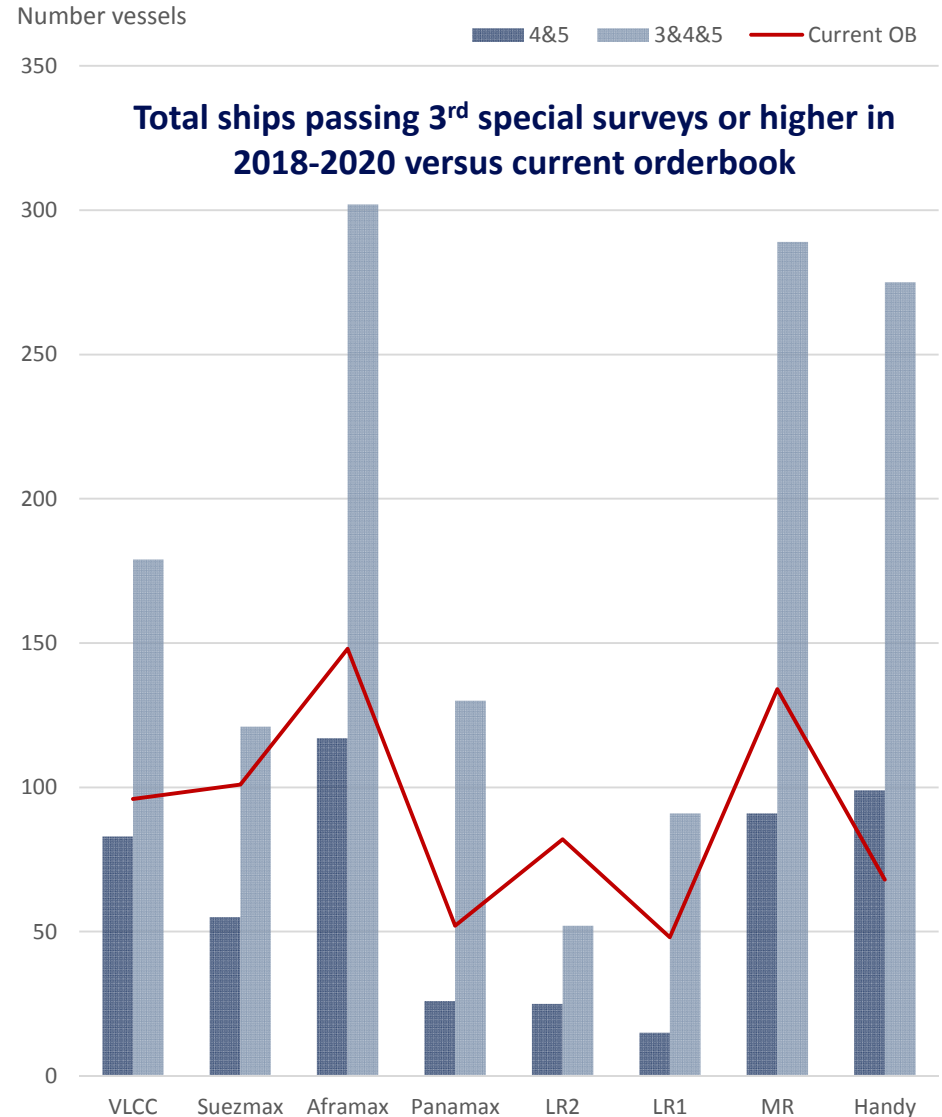
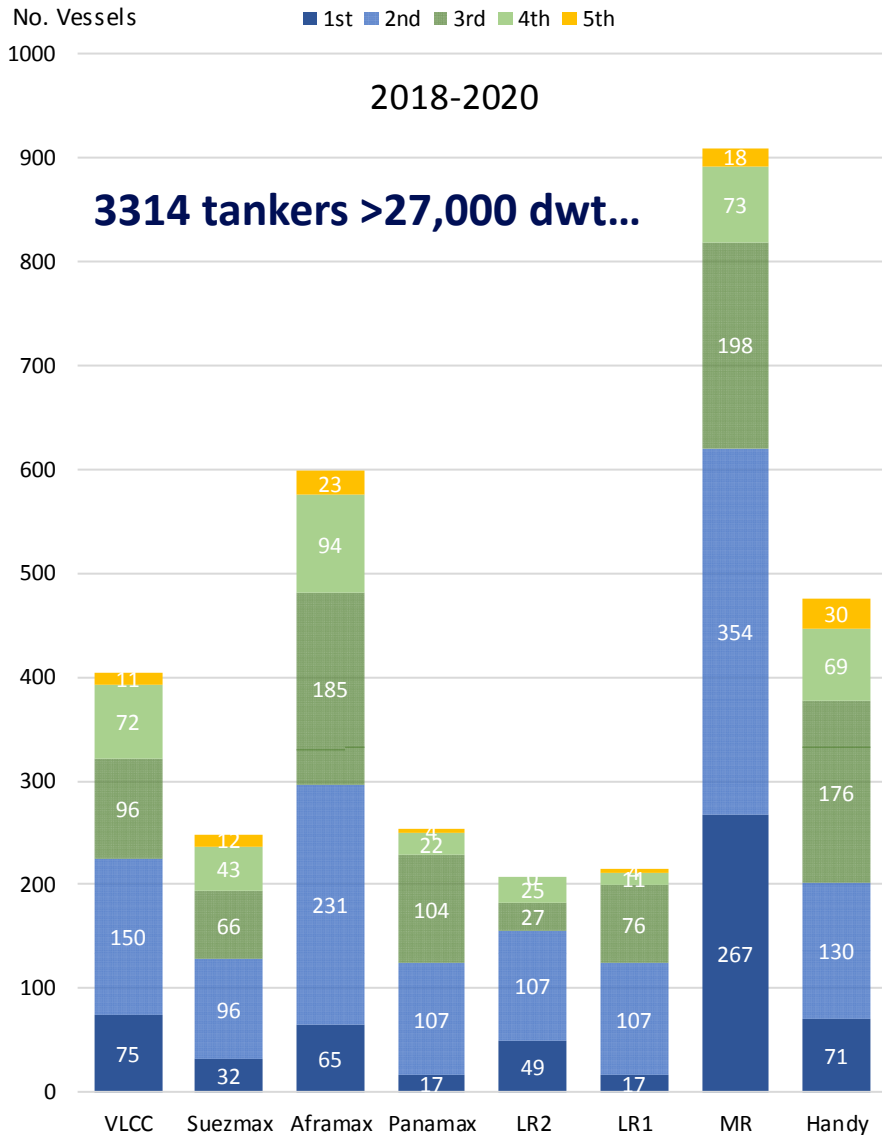
Unless MEPC 71 decides on a relaxed implementation for existing tonnage, these will bear the added cost of BWMS – will the 4th+ surveys get done or will many vessels be scrapped? The count of ships to possibly be removed is relatively moderate still in 2018.





Requirements for the years 2018-2020: is this realistic?

Where do opportunities -likely- arise in a strict BWM implementation world?

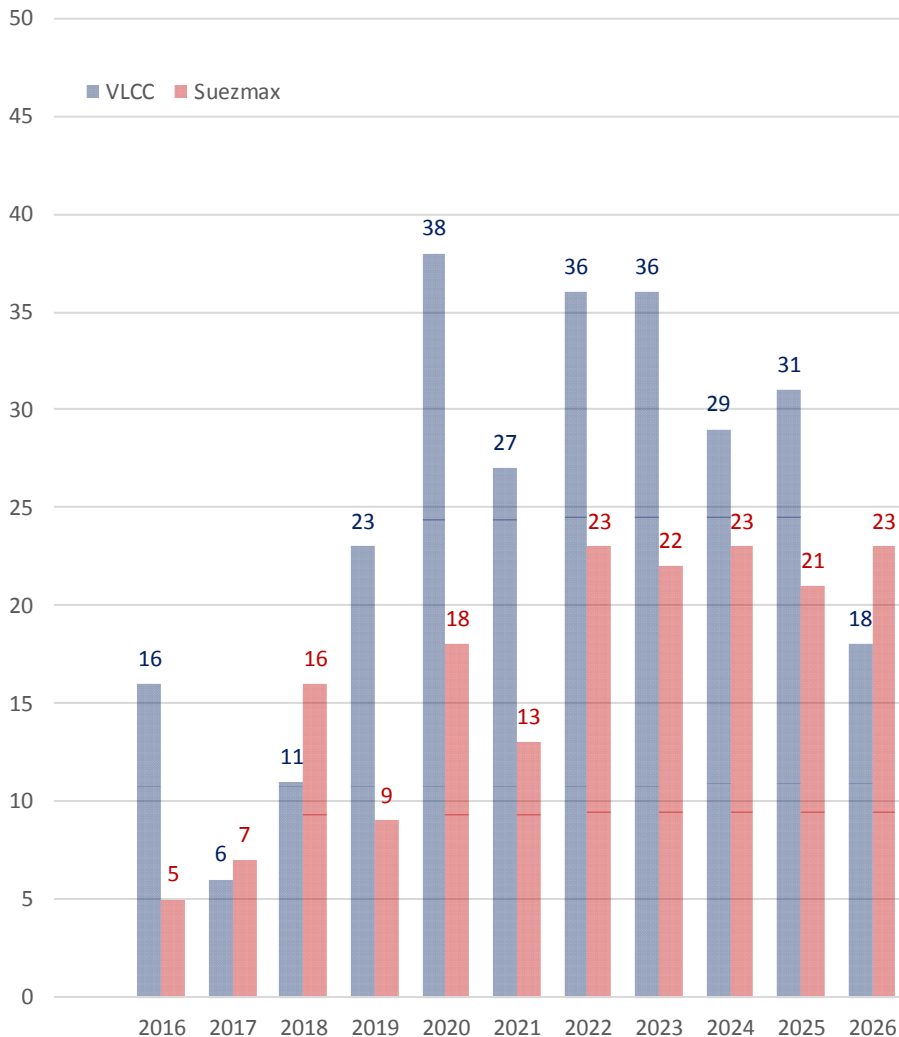




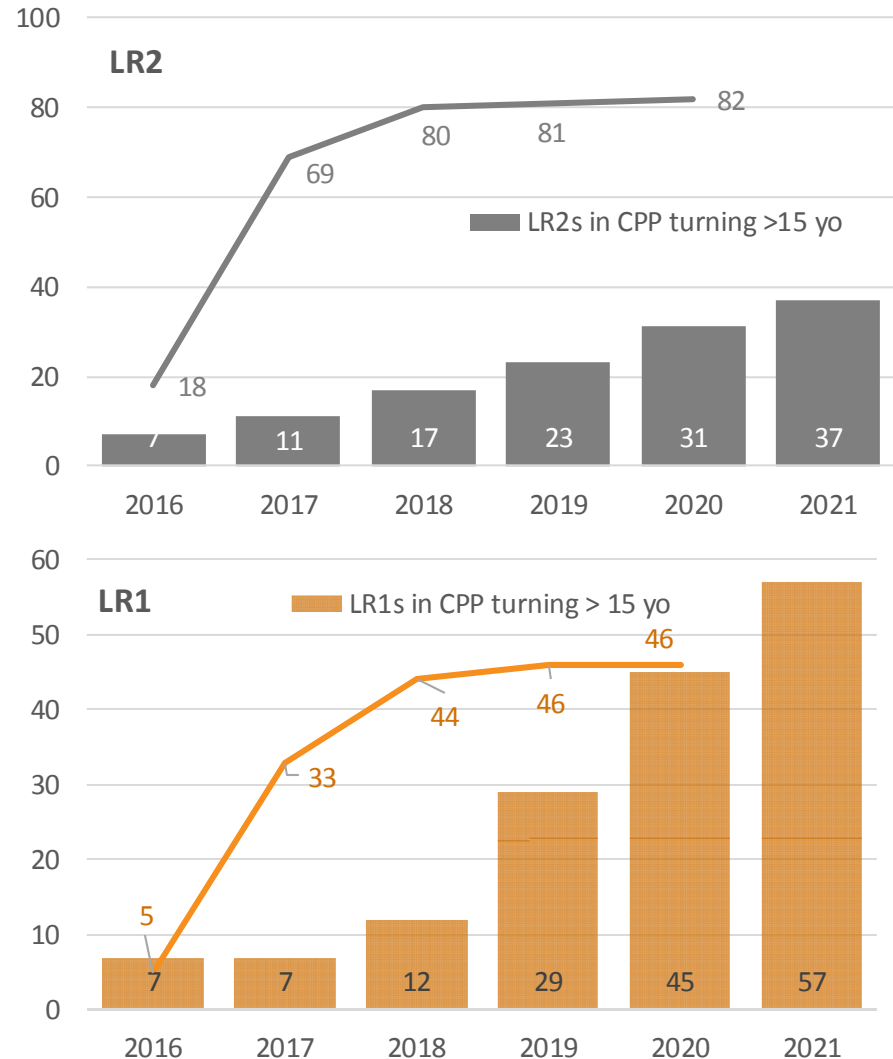
The VLCC fleet finally begins to age post-2020

LR2s average trading age in CPP will need to be squeezed | Will the LR1 removals be replaced?

VLCCs & Suezmaxes turning >20 y.o. per year



LR2s & LR1s turning > 15 y.o. - Cumulative



0.5% Global Sulphur Cap

MEPC 71: Standards for
“non-availability”
“when” and “where”
required, regional
exemptions?

- Existing ECA
- Potential future ECA
- EU sulfur directive
- Additional regulations

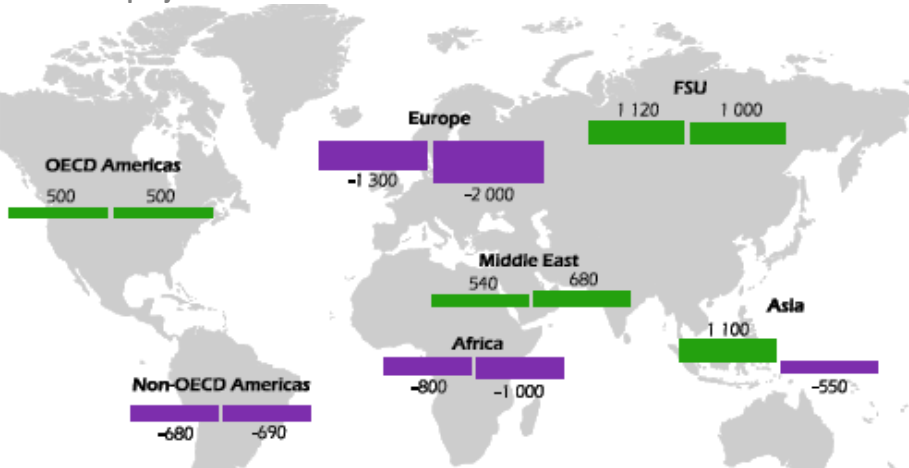
MARPOL Annex VI: 87 parties



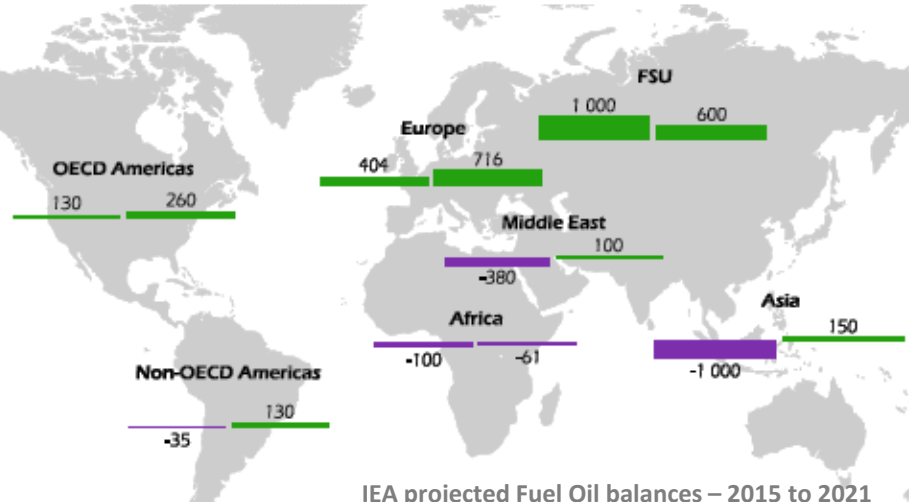
Middle Distillate & Fuel Oil Balances post-IMO 2020

Some tanker segments may benefit from regional discrepancies in bunker demand and supply

IEA projected Gasoil and Jet Kerosene balances – 2015 to 2021



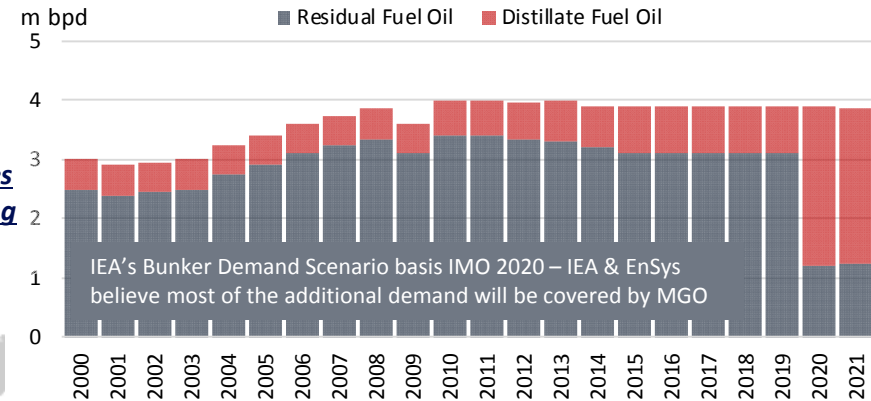
“while supply and demand are balanced globally, regional surpluses and shortages are projected to occur. These can be addressed by transporting fuels or by changing vessels’ bunkering patterns” – CE Delft official report for the IMO MEPC 70



IEA projected Fuel Oil balances – 2015 to 2021

Scrubber uptake NOT considered critical

Scenarios for 0.5% demand in 2020	Petroleum derived fuels			LNG	
	Sulphur % (m/m):	<0.10%	0.10%-0.50%		>0.50%
Base case (3,800 ships with scrubbers)		39	233	36	12
High case (1,200 ships with scrubbers)		48	290	14	12
Low case (4,100 ships with scrubbers)		33	198	38	13



The much desired “legal certainty” is about the only certainty there is:

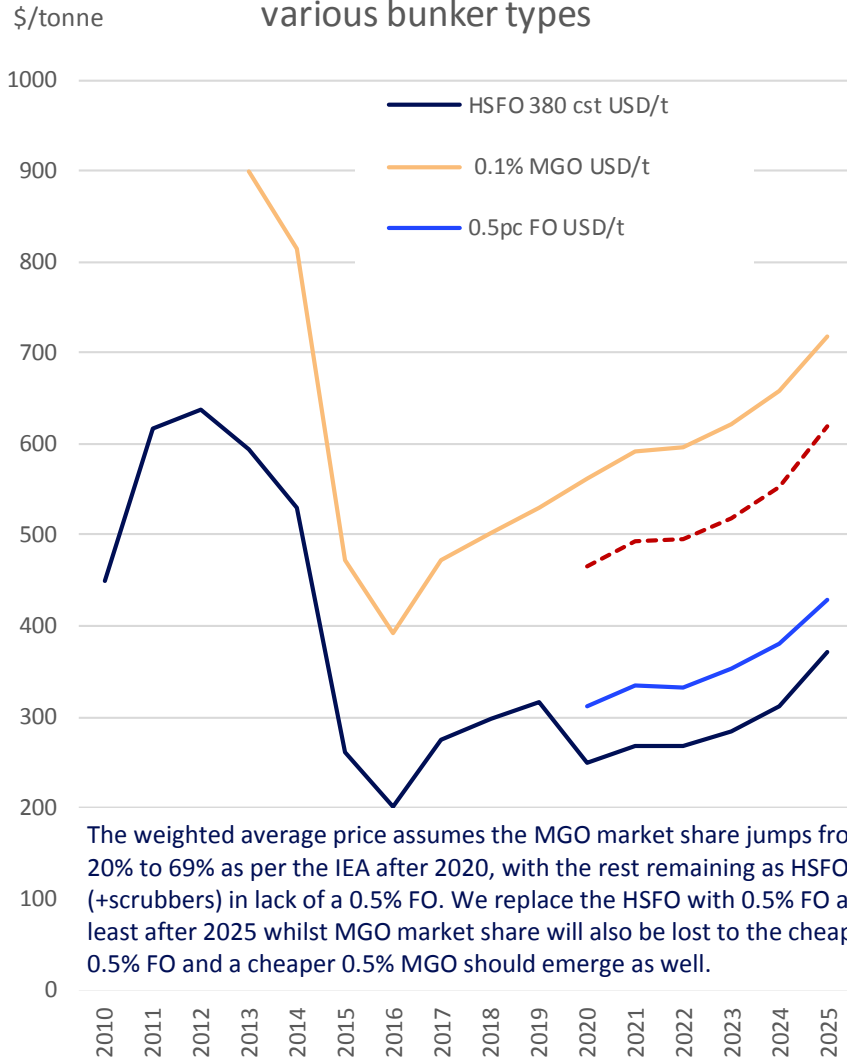
The options: LNG (no regulatory security), desulphurised fuel oil (either through a shift in refiners’ “crude diet” or by new desulphurisation capacity (main additions in the MEG and China but will they suffice), HSFO+scrubbers (will the investment pay off?), fuel oil/distillate blends (compatibility issues). **A lot of what happens next depends on the refining industry – are we big enough to force investments? The shipping industry has not given a clear signal, waiting for pricing visibility which will lead to both refiners and shipping reacting last minute, which is to a degree self-fulfilling.**



How will the “cost of freight” be affected by higher bunkers?

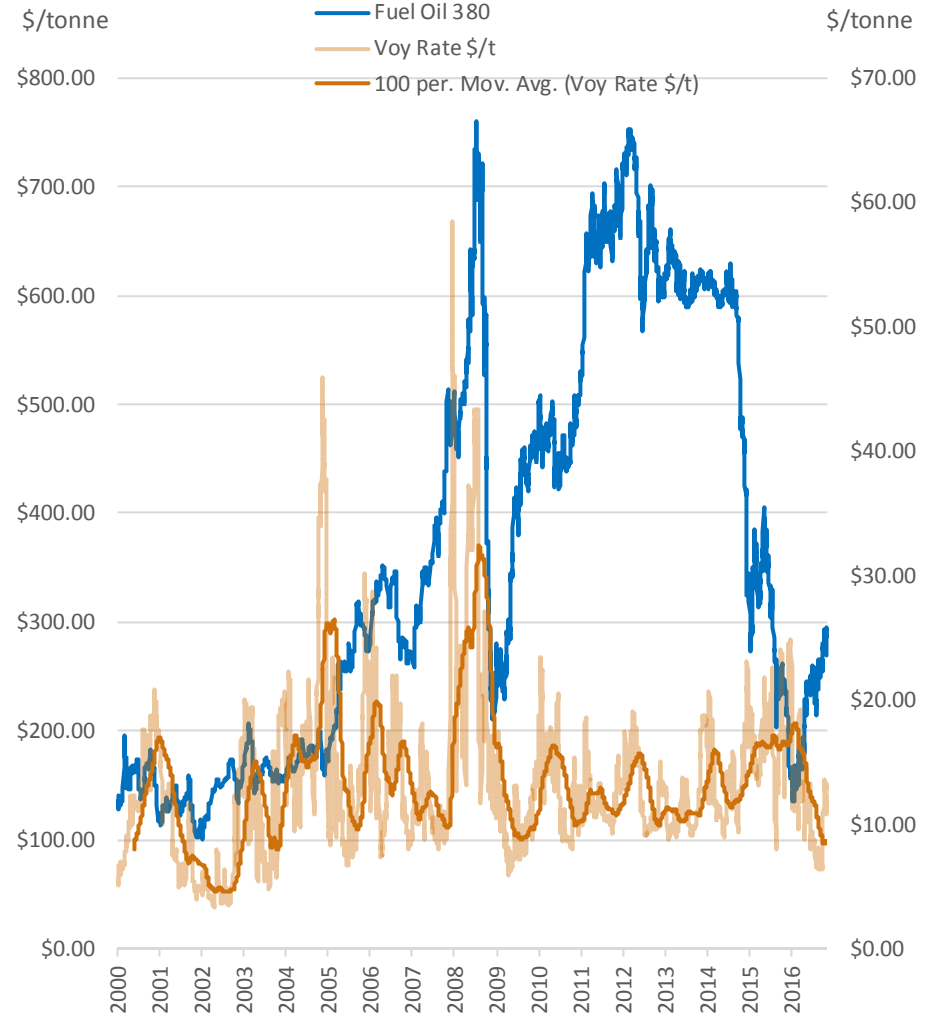
Supply/demand will dictate who will absorb most of the extra cost but there is scope for it to be shared

One view (not ours) on post-IMO costs of various bunker types



Crude Tankers (TD3)

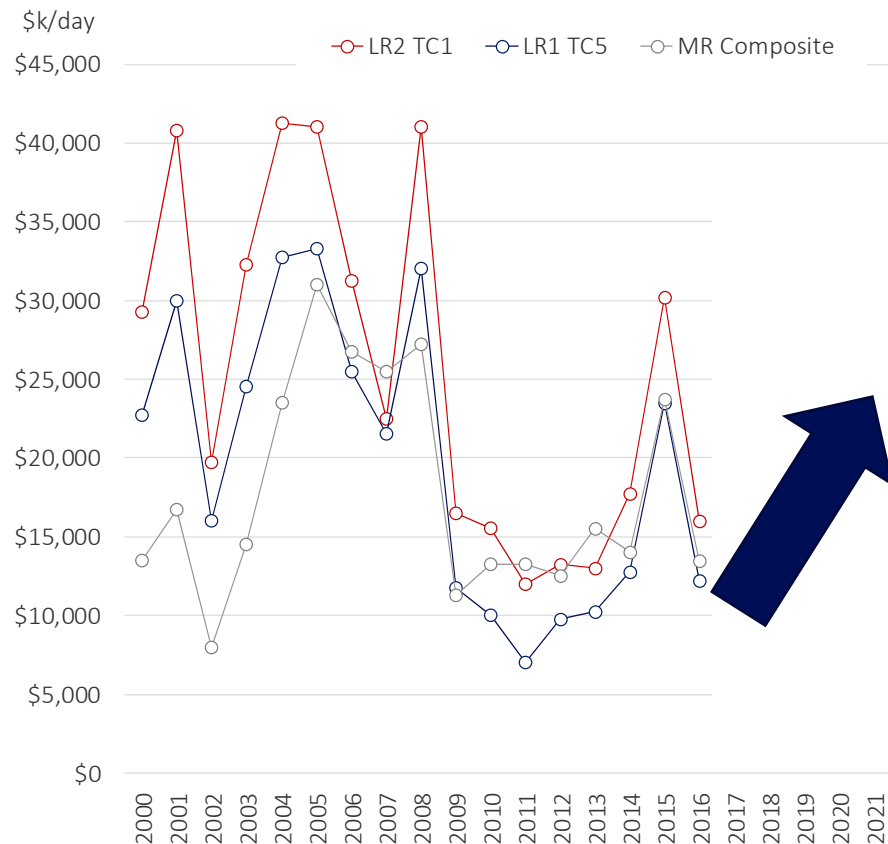
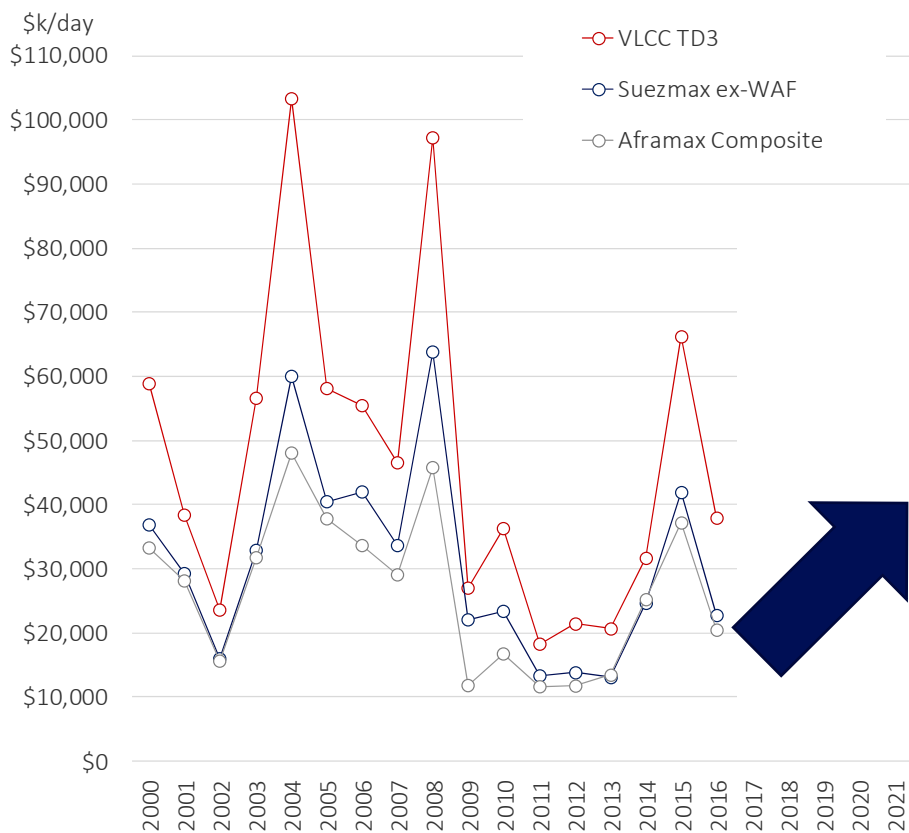
Basis Fujairah spot bunkers and TD3 daily \$/tonne





Tanker Market Forecast

Including Historical Earnings (in thousand \$ per day)



Bunkers vary for forecasted earnings

Pre-2009: Design Speed

Post-2009: Slow Steaming (now Standard Speed, ~12-13 knots)

Notes

All earnings are based on round voyages and non-eco vessels. The forecasted TCEs represent a trend and can be re-calculated to reflect desired speed/consumptions.

Volatility & Sentiment

The tanker market is volatile and future rates will never look as straightforward as the forecast. However forecasting volatility is impossible and so therefore we aim to predict a broad average over the forecast period. Sentiment may create extreme highs and lows that can significantly skew yearly averages.

Produced by Howe Robinson Partners Tanker Research

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