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(TradeWinds)

### Owners with big egos play outside pools

The last three months of 1998 was probably the weakest Panamax tanker market for 13 years, according to Star Tankers, prompting the question why more owners have not scrambled to consolidate in pools. "Shipowners have big egos and they think they can do better by themselves," said Per Heidenreich. "But the market is changing and we have to adapt."

The tanker industry generally remains highly fragmented and the Panamax 60,000 dwt to 80,000 dwt sector of just over 14 million dwt is no exception. There are a few substantial owner/managers such as Pegasus, Eletson, Scorpio, StenTex, Transpetrol and Tsakos but many owners have just two or three vessels.

Fierce competition between them has contributed to rates sliding from an average of \$15,000 to \$16,000 a day to around half that figure. Constantinos Peraticos says that with historically low crude prices a tide of change is sweeping the oil industry, such as Mobil and Exxon's merger, which will make charterers more efficient and reduce their vessel requirements.

"If shipowners have the critical mass it can actually create opportunities for them," he says. "If not things could get worse." Peraticos and Heidenreich are reluctant to broadcast Star Tankers' client base although Exxon, accounting for around 10% to 11% of pool revenues, and BP, with 7% to 8%, are known to be included as well as leading traders such as Tosco. Coastal is also a big customer and has joined the pool with one Panamax vessel. Peraticos says the close links to oil majors means Star has been forced to turn away some owners seeking to join but who failed to meet the required standard.

Heidenreich says pooling reduces competition and creates the opportunity to get some sanity into the trade. Heidmar's Jerry Townsend believes rates have bottomed out. Peraticos says the decline may prove in the longer term to be a blessing in disguise by driving the industry towards consolidation. "If the market paid us \$18,000 a day I don't think we would be sitting here talking (about Star Tankers)," commented Heidenreich. He claims the pool allows Star to provide its customers with a much more flexible and frequent service while facilitating the handling of more contracts of affreightment (COAs) and revolving time charters, which are targeted to increase from around 30% of tonnage capacity to 40% to 45%. The larger fleet, which is targeted to increase to 35 to 40 tankers by this summer, has meant greater ship utilisation, a higher ratio between ballast and load legs and subsequently higher yields, which in the fourth quarter of 1998 approached \$12,000 a day against spot-market rates of maybe \$8,000 or less in December.

Star's cargoes are split roughly 50-50 between crude and fuel oil. The enlarged fleet makes up approximately one third of the 100 Panamax tankers in the Atlantic/Caribbean region. "Expected growth of exports from Latin America combined with size restraints on very large tankers entering US ports means demand should continue for Panamax and Aframax short-haul shipments," says Heidenreich. He adds that the pool is eager to attract owners of modern tonnage the age profile of the Panamax fleet is the worst of any tanker sector as most vessels were built in the first half of the 1980s. The 1979-to-1984 age range of the Star fleet supports this fact. Pleiades Shipping has two firm orders at New Dalian, China with delivery scheduled for the beginning of 2000 while Heidmar has two Panamaxes contracted at Halla, South Korea to be completed this summer. Both orders, which are likely to need a break-even figure of close to \$16,000 a day, have options attached.

The pool formula for distributing earnings is weighted in favour of modern ships, providing Heidenreich and Pleiades more efficient newbuildings with more than \$2,000 a day above the average. "We have seen the scrapping rate increase substantially during November and December last year and it could accelerate further," added Heidenreich. "That is what we need."

Clarkson Research Studies says there is around 2 million dwt of Panamax tankers on order, equivalent to 14% of the fleet but below the replacement rate for most other tanker sizes. Star, which says the world fleet requires up to 20 new vessels a year, believes that firm Panamax orders are far lower.