

## Morgan Stanley Oil-Tanker Unit May Double Fleet in Five Years

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By Alaric Nightingale

April 24 (Bloomberg) -- Heidmar Inc., the shipping company jointly controlled by Morgan Stanley, may more than double its fleet within five years and become the world's biggest operator of oil tankers.

Heidmar may operate 250 ships within five years, up from about 100 now, Chief Executive Officer Tim Brennan said in a telephone interview on April 21. That would make it the largest oil-tanker operator, based on today's rankings. Morgan Stanley bought Heidmar for \$200 million in 2006.

The combination of a 1.5 percent increase in oil demand and a ban on single-hulled oil carriers that starts in 2010 helped drive up the cost of shipping oil by 7 percent in the first quarter. That should boost profit for operators including Frontline Ltd., the largest by carrying capacity.

"The key thing is efficiency and market information," Brennan said of the strategy. "If we have better information, we can improve our timing and improve utilization" of the fleet, he said.

Morgan Stanley said last year its oil trading, transport and marketing network will benefit from a contract to supply two refineries in Scotland and France that process 400,000 barrels a day of crude, or almost twice as much as is consumed in Ireland.

Morgan Stanley's "physical chartering will increase," after it won the contract, which started in March, Brennan said. Heidmar also leases vessels to Exxon Mobil Corp., the world's biggest oil company, and trader Vitol Group AG, he said. Heidmar, based in Norwalk, Connecticut, started operating 1 million-barrel crude carriers this year. It will manage vessels double that size, called very large crude carriers, or VLCCs, next year, Brennan said.

### Tanker Index

The Baltic Dirty Tanker Index, a measure of the cost of transporting crude oil, averaged 1,271 points in the first quarter, compared with 1,188 points during the first quarter of 2007, according to data from the London-based Baltic Exchange. The bourse's prices are used to settle freight derivatives that traders buy and sell to bet on, or hedge, the cost of shipping.

Oil demand advanced 1.5 percent to 87.3 million barrels in the first quarter, compared with the same period last year, according to an April 11 report by the International Energy Agency, adviser to 27 oil-consuming nations.

Tanker owners are starting to switch single-hull vessels to other trades before an International Maritime Organization ban on the carriers takes effect in 2010. The worst oil spill in South Korea's history in December accelerated that process and refineries in Asia are seeking to hire safer double-hull ships.

Transactions with Morgan Stanley are managed at "arm's length," and the bank doesn't gain information on flows in oil trade from the shipping unit, Brennan said.

### Hauling Gasoline

The largest operator of refined-oil tankers is D/S Torm A/S, which manages 128 such vessels. The Hellerup, Denmark-based line said in March 2007 it wants to dominate the market for hauling gasoline, jet fuel and related products.

Heidmar operates ships for other owners, allowing them to gain from being part of a larger fleet. It also hires ships at fixed daily prices that it pools with the other owners' carriers and leases out to oil companies.

Morgan Stanley on April 16 agreed to sell a 49 percent stake in Heidmar to a company affiliated with George Economou, chief executive officer of Athens-based commodity shipping line DryShips Inc. Economou and Morgan Stanley will have an equal number of seats on the board.

Economou owns oil tankers through Cardiff Maritime Inc. and will supply 16 of his own oil tankers that are still being built to Heidmar's pool, Brennan said.

Calls to Economou's office in Athens seeking comment weren't returned.

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