



Product tankers on the cusp of revolution as Jubail refinery to open

ANALYSIS

New wave of Saudi production sites will reshape global trade patterns

HAL BROWN

THE product tanker market is on the cusp of a revolution that will start in earnest in a matter of months as Saudi Arabia opens its new refinery in Jubail on the coast of the Middle East Gulf.

The 400,000 barrel per day Jubail refinery is part of a new wave of Saudi refineries that the International Energy Agency says will generate significant repercussions for the global trade in refined oil products.

Gasoline and diesel will flow from the new Saudi plants to be shipped to the big consumers in Europe, Asia and Africa.

These long-haul routes will increasingly squeeze out short-haul routes, say shipping and energy experts.

Closure of refineries in the Atlantic Basin will open the door for the longer trades, increasing tonne-mile demand for product tankers — the measure that counts in shipping, as it boosts time spent earning on the water.

The Jubail refinery will be joined next year by the 400,000 bpd Yasref refinery on the Red Sea coast and the 400,000 bpd Jizan refinery in the same area in 2017.

That represents 1.2m bpd of Saudi refinery capacity added to the market, equivalent to cargoes for four 50,000 dwt medium range product tankers every day, based on all that capacity being exported.

Alongside new Saudi refineries, China is expanding refinery export capacity, ICAP Shipping told a recent tanker conference.

New Chinese refineries of some 800,000 barrels per day in capacity are close to commissioning, with many industry watchers expecting that much of their output will be for

export.

New Saudi and Chinese refineries mirror what has happened in India. The country now stands out as a major new exporter of refined oil products, led by its 1m bpd Jamnagar refinery.

India is focused on exports, rather than on supplying the domestic market, a recent London conference was told.

Hardly surprising, then, that product tankers are the hottest ships to order today.

A report this month by shipbroker Gibson said that as much as 86% of all tanker orders above 25,000 dwt placed over the past 16 months was for product tankers, particularly MR tankers.

Just days ago, d'Amico International Shipping declared options for another two MR product tankers for delivery in 2015.

Newbuilding orders are spurred by improvements in owners' earnings in the freight market. According to a recent report by Pareto Securities, product-tanker owners in the spot market have enjoyed the best start of the year in three to five years, depending on vessel size.

Earnings published by the Baltic Exchange show the improvement. Average MR tanker earnings from January 1 to now are \$15,251 per day, significantly up from \$9,568 per day over the same period in 2012.

Period chartering activity has also risen, a sign that oil majors want to lock in vessels before the market climbs too high.

For the four first months of the year, there were 45 period fixtures for MR and handysize product tankers, compared to 57 for the whole of 2012, according to Pareto.

As things stand today, owners are seeing a slight downturn in their earnings on the industry's main gasoline trade from northwest Europe to the US as available tonnage has built up.

Earnings on this route are down at \$13,100 per day, from \$14,500 a week ago and almost \$20,000 two weeks ago, Baltic Exchange data shows. The Worldscale rate for the journey is W139.

"I called it W137.5 this morning and soft," said an Oslo-based broker.

A few more vessels were booked today, subject to final decision, which might raise rates slightly, he said.

"Maybe it's around W140 now... nothing much to get excited about."

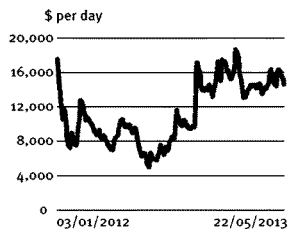
Although the revolution may take time to materialise, new refineries will pave the way for an exciting new era for product tankers. ■

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MR PRODUCT TANKERS AVERAGE EARNINGS



Source: Baltic Exchange



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