

New contracts will not offset aging tanker safety risk



The dramatic upturn in tanker contracts so far this year will do little to offset the steady increase in the sector's age profile for at least three years. There are significant tanker safety concerns.

Paul Bartlett | Jun 24, 2024

At the beginning of the year, the tanker orderbook had declined to a record low as owners held off placing new contracts amid a range of unprecedented uncertainties including future fuel options and the pace of global decarbonisation. However, a number of sector experts have declared that there remains a requirement for at least one more generation of crude oil tankers, as well as other tanker types including products and chemicals.

Despite the dramatic flurry of contracts over recent months – more tankers have been ordered so far than any year since 2006 – the first ships in the next generation are unlikely to deliver before 2027. They will incorporate a range of energy-saving technologies and may come with dual-fuel LNG propulsion, or ‘ready’ for the adoption of new marine fuels in the future.

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Even without these innovative features, their cost would have reflected sharply higher global newbuilding prices, with new VLCCs now estimated to cost in the \$140m-150m range, up from around \$120m in 2022 and \$85m-90m in 2020. Meanwhile, new ship prices continue to rise as builders hold the whip hand.

It is no surprise, therefore, that tanker demolition has fallen to almost zero. BRS Shipbrokers reported last week that just two tankers have been scrapped so far this year, a record low in recycling volumes. In the absence of any new tonnage, a change to the fleet’s profile is unlikely and its average age will continue to climb.

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Meanwhile, BRS reports that average crude and product tanker earnings are at multi-year highs. The position for recycling yards is dire. Despite scouring the market for demolition candidates, most yards have had little to do for months. Now the monsoon season is upon them, a traditionally quiet three-month spell for the demo sector through the third quarter of the year.

The tanker backdrop has become all the more complicated because of the ‘dark fleet’ of mostly older vessels that have left mainstream trades, BRS said. These hard-to-identify vessels pose a major risk for the sector because their ownership is often shrouded in a complex web of paper companies across a range of dodgy jurisdictions. The tankers are likely to be deployed in high-risk trades with little or no compliance with industry standards relating to crewing, maintenance, survey status, port state compliance, or insurance.

“Tanker demolition has followed the historical high correlation to earnings, and continues to defy the expected dislocation that fleet renewal requirements for environmental compliance will have to create,” BRS concluded.

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