

# Lloyd's List

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## Tanker owners hit by quota decision clutch at straws

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| by [A US attack on Iraq could actually benefit hard-pressed owners, writes Tony Gray](#)

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"WAR! What is it good for?" asked the soul singer Edwin Starr. Tanker owners may beg to disagree with his dogmatic answer: "Absolutely nothing."

One theory has it that a US attack on Iraq could prove to be the salvation of the tanker market, which has recently fallen into a pit of depression.



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Tanker owners need some straw of hope to cling on to following Opec's decision not to increase oil production quotas.

The impact on sentiment is clear in the stock market if not in freight rates, which have strengthened in recent days — albeit from a very low base.

Tanker equities have continued their sharp decline, with VLCC giant Frontline faring the worst, as the prospect of increased oil volumes was apparently dashed.

US investment bank Lehman Brothers commented in its last weekly tanker watch: "Although we still believe that exports will increase regardless of the Opec official decision, the time of the increase might be over a month away and the expected size of an increase could be tempered by current quota level."

Whether a production increase will be implemented through an official output rise or in increased levels of cheating remains to be seen.

Looking to next year, however, the fundamentals suggest the outlook appears to be gloomy.

Marco Trevisan, IntesaBci's global head of shipping finance, veers towards this point of view.

At this week's Institute for International Research ship finance conference in London, Mr Trevisan said that the Milan-based bank was more pessimistic than the International Energy Agency on prospects for oil demand in 2003.

In contrast to the IEA's forecast demand growth of 1.1m barrels per day, the bank foresees a modest increase of just 0.5m bpd.

Mr Trevisan said the relatively mild outlook for global oil demand, coupled with the level of newbuilding deliveries, encouraged the bank to believe that the tanker market would "not show an upside during 2003".

Another year of freight rates bumping along the bottom will test the financial strength of some tankers owners to the limit.

Could George W Bush come to the rescue of tanker owner ?

According to conference chairman Ted Petropoulos, managing director of Petrofin, this is possible.

Disregarding the rights or wrongs of a US attack on Iraq for an analysis of the potential impact on shipping and trade, Mr Petropoulos said the outcome could be positive.

Assuming the US was successful in its regime-change plans for Iraq, the country with the second largest oil reserves in the world — 112.5bn barrels — would come under western influence.

Lifting Iraq's crude production would reduce the importance of Saudi Arabia as the swing producer and could even lead to the breakdown of the Opec cartel.

Of course, it is in the interests of the industrialised nations of the west to have lower oil prices.

This could be engineered with a friendly, democratically elected government in Iraq.

"What better scenario for trade than lower oil prices," Mr Petropoulos asked.

Lower oil prices encourage more consumption and a greater requirement for tanker capacity.

An oil price of, say, \$14 per barrel would also reduce the growing power of Russia in the oil market.

Russia's oilfields have a much higher extraction cost than those of the Middle East.

"A new world order would be coming into force," Mr Petropoulos said. "This would not necessarily create problems for international trade and shipping."

He concluded: "Simply from a shipping point of view, the outlook for the next two or three years as a result of these developments can be seen as positive rather than negative."

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