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Tanker consolidation to favour first movers on green shipping

A shake-up in the tanker market looks imminent now that the transition to non-fossil energy sources has picked up pace even as the pandemic has forced investment cuts in oil and gas production. One tanker market veteran argued that those committed to sustainable shipping should be well-placed to ride out the coming wave of consolidation

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The broader energy shipping industry 'will become more sustainable' but 'in a consolidated manner', says AET chief executive

"PEAK OIL DEMAND COULD BE UPON US IN 10 TO 15 YEARS, OR MAYBE SHORTER, IN 10 YEARS," SAID, RAJALINGAM SUBRAMANIAM, CHIEF EXECUTIVE OF TANKER OWNER-OPERATOR AET, DURING THE PLATTS APPEC 2020 VIRTUAL CONFERENCE.

OIL production peaking in the next two decades will trigger a consolidation in the tanker market that favours early movers on sustainable shipping.

“Peak oil demand could be upon us in 10 to 15 years, or maybe shorter, in 10 years,” said, Rajalingam Subramaniam, chief executive of tanker owner-operator AET, during the Platts APPEC 2020 virtual conference.

Total chief executive Patrick Pouyanne has warned of oil production peaking by 2030 or 2040 with renewables making more inroads as the world economy ramps up on decarbonisation.

Ben Luckrock, Trafigura’s co-head of oil trading, told this week's conference of the prospect of global oil demand falling short of recovering to pre-pandemic level of around 100m barrels per day.

These projections build on the fact that renewables have attracted more investments despite the pandemic, while oil majors have slashed capex on prospecting and extracting oil reserves.

Others have counter-argued, however, that tanker demand would hold up in the foreseeable future.

Eni’s head of trading for APAC Stefano Grasso suggested that the global fleet should remain “well-utilised” as oil demand is not going away for at least 10 years more.

Mr Subramaniam appeared to take a similar vantage point but with some caveats.

The broader energy shipping industry “will become more sustainable” but “in a consolidated manner”.

The AET chief essentially suggested with this comment, that those to have moved earlier on green shipping and human capital development are more likely to ride out the next industry shake-up.

He noted, that in this respect, the shipping industry at large, should draw on lessons learnt from the mandatory transition to low-sulphur fuels.

Many wasted time pondering over whether the overarching industry regulator, the International Maritime Organization would postpone the deadline for the low sulphur transition from the start of this year.

That clearly was not Mr Subramaniam’s take on the situation.

AET started test-runs of low-sulphur marine gas oil and other compliant fuels last July, completing the regulatory required switch-over by October.

The shipping line as also among pioneer investors in liquefied natural gas dual fuel tankers, has henceforth slashed carbon intensity of its fleet by 15%-20% over 2008 levels.

Mr Subramaniam added that AET targets to have about half of its planned newbuildings run on LNG dual-fuel engines.

This is expected to contribute to reaching its aspired goal of meeting by 2025 the next carbon intensity target set out by the International Maritime Organization for 2040.

Moving beyond LNG, Mr Subramaniam also flagged AET’s parent group, MISC’s joint development project on an ammonia-fuelled tanker.

Ammonia and hydrogen are two next-generation fuels touted as enabling carbon-neutral shipping though their adoption still face multiple challenges.

While buoyant on the green promise of ammonia as a ship fuel, Mr Subramaniam said: “I suspect it will be in second half of this decade before we see exponential growth in infrastructure and commissioning of the technology.”