Trading Strategies in the Tanker Market

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1. Introduction

Many scholars have defined “strategy”. Chadler (1962, p.13) suggests that “Strategy may be defined as the determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals”. Andrews (1971, pp.18-19) supports that “corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities”. However, as Mintzberg (1994) points out people use “strategy” in several different ways, the most common being the following four:

- Strategy is a plan, a “how”, a means of getting from “here” to “there”.
- Strategy is a pattern of actions over time. For example, a company that regularly markets very expensive products is using a “high end” strategy.
- Strategy a position; that is, it reflects decisions to offer particular products or services in particular markets.
- Strategy a perspective, that is, vision and direction.

Mintzberg (1994) argues that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg (1994) called “realized” or emergent strategy.

Porter (1996) is concerned with competitive strategy. He argues that competitive strategy is “about being different”. He adds, “it means deliberately choosing a different set of activities to deliver a unique mix of value”. In short, Porter argues that strategy is about a competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors. More specifically, Porter (1996) defines competitive strategy as “a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there”. Thus, Porter seems to embrace strategy as both plan and position.

Tankers are used for the transportation of crude oil. Crude oil is one of the major commodities transported by sea and is, perhaps, the most important physical commodity. The primary crude
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oil distillates, gasoline, aviation fuel, heating oil and fuel oil, which are indispensable for transportation, industrial and residential use. Seaborne trade in crude oil has grown enormously over the last five decades during which new sources of supply have been discovered in the Middle East, West Africa, the US Gulf and the North Sea.

The tanker shipping industry comprises four different but closely associated markets:

(i) the freight market;
(ii) the sale and purchase market;
(iii) the new building market and

the demolition (scraping) market. Prices in these four shipping markets are determined by the interactions of buyers and sellers in the markets (Dikos and Marcus, 2003). These four shipping markets can be categorized into real and auxiliary markets (Strandenes 2002; Adland et al., 2006a, b; Lun and Quaddus 2009). Shipping firms order new ships in the new building market and scrap unused ships in the demolition market. New building and scrapping markets are real markets as their activities affect the overall shipping supply or size of the international fleet. The other two markets describe transactions. Along the same lines, Stopford (1997) generalized the shipping industry into four seemingly separated but closely connected markets — the freight market for cargo transportation, the new-building market for ordering new ships, the second-hand market for trading old ships and the demolition market for scrapping ships. Amongst them, the freight market is a service market for sea transport while the other three markets are all dealing with ships and can be viewed as ship markets.

An essential point of the four shipping markets is that they are not independent but closely connected to each other as the global seaborne trade triggers the demand for shipping services. Cargo-owners who have the need to transport their cargoes will enter into a special contract with ship-owners, in which the freight rate is settled. Therefore, a high seaborne trade will push up the freight rate. An uptrend freight rate encourages the ship-owners to expand their services since the earnings of shipping services are high. If they rush to take advantage of the short-term profit, they may choose to purchase old ships immediately. A significant increase in trading of old ships will drive up the second-hand ship price, which may induce the ship-owners to order new ships instead. A heavy ordering of new ships will push up the new-building price. When the new ships enter into the freight market, the supply increases and the freight rate will drop. A continuous lower freight rate may cause the decrease of second-hand and new-building ship price. If the second-hand price is lower than the scrapping price, ship-owners may have to scrap the ship, as it may not be sold out in the second-hand market nor the laid-up option is economical.
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The key decision shipping companies are faced with is when to expand their fleet (new built or second-hand) and when to reduce its size (sell in the second-hand market or scrap). Their decisions depending their price forecasts – increasing/decreasing prices and time horizons – formulating strategies of purchase, new or second-hand, selling or scrapping will also impact the global supply of ships and in turn their estimations of future prices. Furthermore, other risks and opportunities may evolve over time, which might also impact on the strategy.

In this thesis, trading strategies prevailing in the tankers’ market at an operational level are investigated as per risks identified over time.

Following this introduction, the remainder of the Thesis is organized as follows:

In the next chapter will be presented a theory about tanker industry, how it is built and how it works. Then we analyze the factors that affect the formation of freight rates in maritime shipping markets as freight form a large part of the maritime trade. It is considered appropriate to refer to the demand for maritime transport in general, and then to look at the supply and demand for shipping particularly, and to further analyze the factors that affect them.

The following chapter describes the methodology and tools used in this Thesis in order to answer the concerns raised in the introduction.

In chapter four, strengths, weaknesses, opportunities and threats identified in the existing background theory using SWOT analysis are investigating. Finally, there is a reference to the risks and opportunities that affect the strategies in the shipping industry.

Continuing, in chapter five, there are the strategies that appear to be followed by five shipping companies with a different fleet size and how they are shaped over the years. Furthermore, their risks and containment strategies are identified, as they have emerged after studying the annual financial statements of the five companies.

Finally, there is a comparison of what was mentioned in the chapter of the theory and what emerged from the study of the annual reports of the companies in order to reach conclusions.
2. Background theory

Shipping is one of the world’s most internationalized industries. The primary task of the shipping industry is to move cargoes around the world. Thus, price for sea transportation, which is called the freight rate in shipping terms, is always important. Since in the shipping market there is free entry and exit, the freight rate is usually deemed as representing the interaction between demand and supply. The charge for using a ship on a specified voyage is called a voyage rate or a spot rate, while the rate for hiring a ship over a future period -is defined- as a time charter rate. No matter what kind of prices, the freight rate exhibits the well-known cyclic characteristics. Stopford (1997; 2009) has examined the short- and long-term cycles in the shipping industry and found that the average length is around 8 years. The formation of the shipping cycles is caused by some random events, such as the oil crisis (October 1973), the financial crisis (October 2008), and the starting or ending of a war (Iraq invades Kuwait 1990). As the structural changes of the freight rate occur randomly and cannot be pre-determined, the freight rate does not always keep at an equilibrium level but exhibits dramatic fluctuation sometimes. As a result, the shipping environment is with high risk and great uncertainty.

By providing the transportation services, carriers earn revenues from the freight market. High revenues may induce the shipping companies to expand their market shares. Thus, ship investment will be considered to expand a company's fleet size. One way of expansion is to order new ships in the new-building ship market. This behavior increases the demand for new ships, which may lead to an increase of the new-building ship price. With the increasing delivery of new ships, the supply of the shipping services increases, which has a negative impact on the freight rate. A notable feature of new ship ordering is that there is a construction lag between ordering and delivering of a ship, which takes between 1 and 4 years depending on the size of order-book held by the shipbuilders. Then there is a viewpoint that the price for a new-building ship reflects the expectations for the freight market. Many new orders are made when the freight rates are attractive, because a higher freight rate encourages banks to lend more money. However, due to the strong connections between the freight rate and the new-building ship price, it is also the time that the cost of a ship is high. Thus, the timing of investing in ships is an important question which needs to be addressed.

Another way of expansion is to purchase old ships in the second-hand ship market. Unlike the construction of new ships, second-hand ships can be immediately put into the freight market to provide transportation services. For the shipping company who cares more about the short-term profit than the long-term one, buying old ships instead of ordering new ones is the prominent strategy. Buying and selling behaviors in the second-hand ship market has no impact on the supply of the shipping services. The key function of the second-hand market is to reallocate
ships among ship-owners. Second-hand ship price is, in general, lower than the new-building ship price because of its shorter lifespan. However, when the freight market is very attractive, the second-hand ship price could be higher than the equivalent of a new-building one.

2.1 Factors influencing the formation of freight rates on maritime shipping markets

The freight rates are influenced by market flows depending on the cargo being traded and they are expressed in the form of indices for each different market segment (Radonja et al., 2011: 321). Of many factors which influence the maritime shipping market, five factors influence the demand for maritime transport, and five factors influence the supply on the maritime shipping market. The factors influencing the demand for maritime transport are the world economy, the international maritime trade, the average achieved profit, political events and transport costs. On the supply side is: the world fleet and its productivity, shipbuilding, shipbreaking (scraping) and freights. The relationship between these variables and the way they mutually function is shown in Figure 1, consisting of three components (Stopford, 2009: 114):

1) demand,
2) supply,
3) freight market, connecting the other two by regulating the cash flow between those two sectors.

The way in which this mechanism functions is very simple. On the demand side there is world economy which through a series of different industries’ activities creates goods that require maritime transport. The development in partial industrial sectors can modify the general growth trend, as can the changes of shipping distances, creating the final demand for maritime services. On the supply side there is merchant fleet which represents a fixed shipping capacity market (Domijan-Arneri, 2014: 141). In a certain period of time only a part of that fleet can be used for trade, while in that time some ships can be decommissioned or used as a depot. The fleet can be expanded with new buildings or limited by shipbreaking. The amount of fleet transport ensures but also depends on the productivity of the management of ships in partial speed and in waiting time. Finally, shipper’ policies, banks and legal regulators all influence the development of supply on the market.

The central place in Figure 1 (the shipping market model) is occupied by freights, which represent the equilibrium between supply and demand. This connection between the market balance and the freight is one of the most important economic connections in the shipping model and is controlled by the shipowners who decide how to react in a certain situation. This model gives the cycles on the shipping market a characteristic pattern of uneven ups and downs.
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Demand model

4. Political Event → 1. World Economy

2. Commodities Trade
- Oil Products
- Crude Oil
- Iron Ore
- Coal
- Grain
- Other Cargo

3. Average Profit

WORLD

Demand
Supply

Equilibrium

Supply model

2. Productivity

1. Merchant Fleet
- Tankers
- Combined Ships
- Bulk Ships
- Container Ships
- Others

Trade
Decommission


Shipowners' Policy
Shipper's Transport Policy
Leading Bank Policy
Government Regulatory Policy

Decision-Making Environment

2. Freight model

D2 S

D2 Freights

5. Freight Costs
2.2. Maritime transport supply

In order to examine the freight rate and its relationship with the four shipping markets we have to understand that the shipping supply is controlled by four groups of decision-makers: shipowners who are primary decision-makers and who order new ships, send old ships for scrapping and decide when it is best to save on tonnage; charterers who can become shipowners themselves or influence the shipowners by issuing time charters; bankers who finance the transport, which means that oftentimes the banks are the ones who put financial pressure which leads to a fall on weak markets, and regulatory authorities which adopt safety decisions. Precisely for this small group of decision-makers the supply side in the shipping model is very prone to changes.

Shipping is an integral part of the global transportation and logistics network and has always been considered as one of the most volatile industries, where agents are exposed to substantial financial and business risks. The risk in the shipping industry predominantly emanates from fluctuations in freight rates which in turn affect the cash flows of shipowners, operators and charterers. As a result, market participants have developed different methods to manage freight market risk including using long term contracts such as period-charter, contract of affreightment, and bareboat charter. Although these physical contracts can effectively protect shipowners and charterers from adverse freight fluctuations and risk, they have their own drawbacks including long term physical commitment, low trading activity in long term contracts, and counterparty risk, among others. Despite the need for a more efficient risk management mechanism in shipping markets, it was not until the mid-1980s that a derivative market for freight rate was introduced.

Over the last 20 years the forward freight market grew rapidly and despite the economic decline in the second half of 2008, and consequent slow-down in international shipping, trade in freight derivatives instruments is still developing and plays a significant role in risk management process in international shipping markets. The growth of transactions in the FFA market is also evidenced in Fig. 1, which presents the estimated number of freight contracts traded each year. According to market sources, in February 2008 the total value of trades in the market was about $150bn. The development of the forward freight market also attracted a lot of interest from non-shipping industry as traders from investment banks and hedge funds realized the potential benefit of these new instruments for speculation and diversification. However, the trading volume in the FFA market declined following the effects of credit crunch and slow-down in sea transportation and shipping markets activities since 2008. There have been a number of
studies on the dynamic behavior, hedging effectiveness, forecasting and other risk management issues related to the shipping derivative contracts. Kavussanos and Visvikis (2006) provide a thorough survey of the literature on shipping freight derivatives. For instance, Kavussanos and Visvikis (2004) investigate the market interactions in returns and volatilities between spot and forward freight rates in the Panamax sector, while Kavussanos et al. (2004b) examine whether FFA is an unbiasedness predictor of futures spot rate in four routes of the Panamax market. Kavussanos et al. (2004a) study the effect of development of the Panamax FFA market on volatility of the Panamax spot freight rate and argue that increased activities in the FFA market has had a stabilizing effect on the spot rates. Batchelor et al. (2005) investigate the relationship between bid-offer spread and volatility of the FFA prices and find that increase in bid-offer spread is an indication of agents’ expectations on future market uncertainty and increase in volatility of FFA prices. In another study, Batchelor et al. (2007) argue that using the FFA prices along with spot prices in multivariate dynamic models can improve the forecasting performance of both spot and forward freight rates, while Koekebakker and Adland (2004) investigate the forward freight rate dynamics using a term structure model. Angelidis and Skiadopoulos (2008) investigate the suitability of different time-varying volatility models for the FFA prices in terms of estimating the Value-at-Risk. Other studies such as Tvedt (1998) and Koekebakker et al. (2007) focus on pricing options on forward freight rates. Despite this plethora of studies on different aspects of forward freight agreements such as the dynamic behavior, risk management benefits, and predictive power of FFAs, there has been no study to investigate the relationship between price volatility and trading activity of forward freight rates. The analysis of dynamic relation between price and trading activity in the FFA market is important both in economic and econometric terms. First, the interrelationship between price and trading activity, and price volatility and trading volume, is essential in understanding how the FFA market functions and how the participants behave or make decisions according to the arrival of information. From the econometric point of view, establishing the correct relationship between price, volatility and volume is essential in modeling and forecasting these variables as well as setting up risk management functions and trading strategies.

2.3 Demand and supply for shipping
Demand for transport services and local-regional-world economic activity are positively correlated with immediate changes in the demand for goods to indirectly influence the demand for the transport service of the same good. Although the demand for transport services is a derivative, it does not mean that it is also of secondary importance, since without the transport service the good is not able to reach destination and to complete the production process.
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(Sambrakos, 2001).

Perhaps the most tangible and recent example of the close relationship of shipping with global economic activity is the rapid decline of the shipping marker BDI (Baltic Dry Index) for the bulk of dry bulk cargoes in the last quarter of 2008. The sustained upward trend of the index in recent years, which has given shipowners positive expectations and alongside robust economic activity after 2001 reached the level of 12,000 units in the summer of 2008. The peak of 2008 did not lead to the complete collapse of the index led to its lowest record for the last few years in January 2009.

Changes in fuel, or bunkers, prices may adversely affect profits. Fuel, or bunkers, is typically the largest expense in shipping operations for vessels and changes in the price of fuel may adversely affect profitability. The price and supply of fuel is unpredictable and fluctuates based on events outside control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries, or OPEC, and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns. Further, fuel may become much more expensive in the future, including as a result of the imposition of sulfur oxide emissions limits in 2020 under new regulations adopted by the International Maritime Organization, or the IMO, which may adversely affect the competitiveness of business compared to other forms of transportation and reduce profitability. Tanker rates also fluctuate based on seasonal variations in demand. Tanker markets are typically stronger in the winter months as a result of increased oil consumption in the northern hemisphere but weaker in the summer months as a result of lower oil consumption in the northern hemisphere and refinery maintenance that is typically conducted in the summer months. In addition, unpredictable weather patterns during the winter months in the northern hemisphere tend to disrupt vessel routing and scheduling. The oil price volatility resulting from these factors has historically led to increased oil trading activities in the winter months.

2.3.1. Factors affecting demand for shipping

As in any other market, shipping prices are determined by each relation between supply and demand. Demand for shipping can characterized as very unpredictable and with many fluctuations. Stopford (1997) defines some important variables that determine the demand for shipping:

The global economy in general

The most important single influence on ship demand is the world economy. Since the world economy generates most of the demand for sea transport (import of raw materials for manufacturing industry, trade in manufactured products), the growth of sea trade follows closely the growth of world economy (growth of trade).
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There are three different aspects of the world economy that may bring about change in the demand for sea transport.

1. The occurrence of business cycles (alternate increases/reductions in the rate of economic growth). These fluctuations work through into seaborne trade so that demand for sea transport is unlikely to grow smoothly.

2. The long-term trend relationship between the growth of seaborne trade and the growth of the world economy. There are three reasons to expect that over long periods such changes will occur:
   a) domestic sources of raw materials may become depleted, forcing users to turn to foreign suppliers leading to imports growing faster than industrial production.
   b) industrial development brings changes in demand for bulk commodities which make up a large part of seaborne trade.
   c) Economic activity tends to become less resource intensive, and the emphasis switches from construction and stock building of durables to services with the result that there is a lower requirement for imported raw materials.
   d) status of countries generating industrial growth may change - new countries emerge, others decline in importance (Japan, Korea).

3. The occurrence of economic 'shocks' also affects the impact of the world economy on seaborne trade. These differ from cycles because they are unique, often precipitated by some particular event, and their impact on the shipping market is often very severe (1930s depression-Wall Street crash 1929, the 2007/8 global economic crisis).

4. Seaborne Commodity Trades

The effect of individual commodity trades on the demand for sea transport falls into short-term and long-term components. The principal short-term influences are seasonal effects and stockbuilding (harvesting period of agricultural commodities; oil consumption - higher in autumn/winter than in spring/summer). Both have a significant impact on the demand for shipping services during a short period (medium-term growth of demand and the employment prospects for particular ship types).

More important is the impact that developments in particular commodity trades have upon the medium-term rate of growth of demand for sea transport. Particular commodity trades may follow a different growth trend from the world economy as a whole due to changes in the demand for that particular commodity (e.g. coal to oil as
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primary energy source), a change in the source from which supplies of the commodity are obtained (new North Sea and Alaska oil reserves), a change in the production technology, or a relocation of processing plant. For industrial raw materials, processing before shipment can have a direct effect on the volume of cargo shipped by sea and the type of ship required.

- Average capacity
- Political events and developments

Political developments may bring about a sudden and unexpected change in demand. The term 'political event' is used to refer to occurrences as a localized war, a revolution, government policies, or the political nationalization of foreign assets. Events of this type do not necessarily have a major impact on the ship demand in their own right but their indirect consequences are significant.

International Effect:

a) Suez Canal opening and closure.

b) World War I & II.

c) Tap Line oil pipeline closure between Saudi Arabia and the Mediterranean.

d) OPEC production cut backs.

Localized effect:

a) Cuban crisis - sugar exports diverted to the USSR and China.

b) Competition

The demand for a specific shipping service can be influenced by competition from within the shipping industry or from other transport modes. Demand will be determined by evaluation and comparison of the following factors:

a) Level of quality of services.

b) Frequency of services.

c) Speed.

d) Freight costs.

e) Economies of scale.

f) Efficiency/ reliability.

In a free competition market, customers assess the above factors and decide which service best suits their interests.
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In the long run, there are some other factors that affect the parties to the transport contracts (freight-charter). These are mainly changing in demand, changes in supply, redefinition of the production and distribution points of freight and, finally, the shipping policy of freight forwarders and haulers. A very basic example of such long-lasting changes is the deindustrialization of developed countries over the last three decades, with industrial production shifting to the Asian countries, but with the core of demand still in the developed countries. This has the effect that products often must be transported over longer distances to reach the main market.

Increasing the capacity, the technical characteristics of the ships, the total consumption of the fuel and, therefore, the average demand for the shipping services offered. Political events and developments at a global level are capable of greatly affecting, suddenly and unexpectedly, the demand for maritime services. The term "political events" is used in macroeconomics visa to describe some unexpected political development that can affect economic activity. By the term political events, therefore, we can refer to wars, revolutions, strikes, various political decisions, new laws, etc.

2.3.2. Factors affecting the offer of shipping services

Stopford (1997) defines it as identifying factors offer the following five:

- The size of the world fleet
- Productivity of the global fleet
- Shipbuilding and shipbuilding developments
- The dissolutions and fare levels

It is very easy to observe the determinants of the offer to discern a simple relationship.

\[
\text{SUPPLY} = \text{AVAILABLE WORLD FLEET} + \text{ADHESIVES} - \text{SCRAPING}
\]

The offer for shipping services is inelastic and slow to change for this, and the nature of the offer differs from the short to the long term. In the short term, the size of the world fleet is a given and it is not possible to change the number of ships. However, shipowners can influence the capacity offered in the short term by decommissioning part of their fleet or by re-launching decommissioned vessels. In addition, they can redefine their operating speed (operating speed). This move will affect the number of available tone-miles and hence the capacity offered. Increasing ship speed is, in other words, a way to increase productivity. The productivity of a fleet can be measured in tunnels for a specific period (usually one year, 365 days). Consequently, productivity depends on speed, capacity utilization (in tons), decommissioning, time consumed in ports and days when the ship is loaded and at sea.
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Fares, even expectations related to the future level of fares, are the most important factor affecting the offer for maritime transport. When fares and expectations are high, shipowners are likely to want to "build" more ships and so the capacity offered tends to increase. When fares and expectations are low, then shipowners may want to dismantle their ships in order to reduce their operating costs, so the quantity offered falls short.

Over the last few years, the VLSS’s are considered among the most difficult in the sector, given the weak growth of oil trade by sea on the one hand and overcapacity on the other hand.

In 2013, it is noted that fares in the above-mentioned tanker category are at historically low levels, ranging at $ 18,000 a day for VLCC, $ 15,000 a day for suezmax and $ 12,000 a day for aframax ships.

Global oil consumption is growing at an annual rate of only 2% in recent years, while the International Energy Agency predicted that global fuel consumption will increase by 1.1 million barrels per day in 2013 and an additional 1.2 million barrels / day, 2014.

At the same time, in a low-demand environment, instead of moderating investment activity, there is a record of new orders and shipbuilding of new tankers. The fleet capacity of more than 78,000 dwt was increased by 7% in 2011 and by 5% in 2012.

It is noted that the total fleet of VLCCs is 630 vessels, with a total capacity of 194 million dwt, accounting for 32% of the fleet. The aframax fleet consists of 890 vessels, with a total capacity of 95 million dwt. (45%), and there are 445 Suezmaxes, with a total capacity of 70 million dwt. (23%)

The world fleet is projected to grow by only 2.6% in 2013, 3.3% in 2014 and 1% in 2015. Newcomer deliveries this year will be the lowest since 2006 and down by 44% compared to last year.

For 2013, deliveries are estimated to be 16 million dwt, while in 2014 they went up to 18 million dwt to drop 10 million dwt in 2015. It is, however, estimated that deliveries, in the two above-mentioned years, were ultimately less due to delays.

It is worth noting that in the first eight months of 2013, 26 VLCCs were delivered, with a total capacity of 8.3 million dwt. Also, 17 Suezmaxes (2.6 million dwt) and 14 Aframaxes (1.5 million dwt) were delivered.

However, in the years 2013-2014, new orders are minimal and, therefore, there was a significant deceleration in new arrivals in the coming years. But in 2013, there was an upward trend in new orders, which amounted to 68 vessels of 12.5 million dwt, compared with 32 ships in the same period in 2012. (naftemporiki.gr)
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2.3.3 When will the balance on the tankers market occur?

The US tariffs imposed on Iran and the world’s large oil reserves are two factors that have a negative impact on the tanker market, leading to greater uncertainty, especially the market for VLCCs.

On May 25, 2018, the average profit for VLCC, Suezmax and Aframax ships reached $4,238 / day, $18,073 / day and $17,930 / day respectively, according to BIMCO. BIMCO analysts say it will take some time before the desired balance on the tankers market is reached, as global oil reserves are rising and OPEC member countries are weak, mainly Libya and Venezuela.

However, it is estimated that the tankers market will experience a significant increase in oil demand when global stocks shrink. In terms of supply, the appetite of shipowners for tanker shipbuilding as well as purchases of second-hand vessels seems to have diminished.

As Chief Analyst at BIMCO, Peter Sand, says “increased tanker recycling since the beginning of this year has improved the conditions on the world tanker market as it has not allowed the fleet of these ships to grow further”.

Interestingly, last March 2018, the largest number of tanker shipments has been recorded on a monthly basis since 2003. Last March 2018, it is estimated that 10 VLCC ships were shipped for recycling. (naftikachronika.gr)
3. Methodology

In this thesis, trading strategies prevailing in the tankers’ market at an operational level are investigated as per risks identified over time.

It is essential to identify the strength - weaknesses - opportunities and threats as identified in the existing background theory in order to compare this theory with the results of the survey conducted in the five shipping companies. This is made feasible using the SWOT analysis. Next, the risks and opportunities affecting strategies are identified to make a comparison at the end of this Thesis.

It is still useful to analyze the factors that affect a company strategy such as fluctuation in freight rates, the imbalance between supply and demand and their constant change. With this analysis will be able to identify why a company uses a strategy for a given time when we know what these factors are.

Then, it is necessary to consider the risks of the strategies that a shipping company may follow, in order to compare them later on with the risks and strategies followed by five shipping companies in the years 2006-2017.

The most useful tool I used in my Thesis is SWOT analysis. The SWOT Analysis examines the Strengths and Weaknesses of a Business, Opportunities, and Threats from the environment in which it operates. It is used by many companies to assess the situation they are currently facing in order to make decisions and shape their future strategy.

An appraisal of the activities of a shipping company can be carried out using the SWOT analysis module. A thorough research needs to be carried out before a SWOT assessment is conducted, as it may reveal a downward customer base or new competition in the target market.

I then chose to review the annual reports of five shipping companies. In this way, I will identify the risks that companies are confronted with and how they deal with them, and probably how much affect the companies themselves. Based on the dangers and how companies face them, they will also identify the strategies they use to reduce risk.

In order to look at this issue, it is useful to analyze the general strategy based on theory. This is achieved through the SWOT analysis of tanker shipping companies. SWOT analysis is a strategic planning tool used to analyze an enterprise's internal and external environment when the firm must take a decision in relation to the objectives it has set or to achieve. It is a useful technique for understanding Strengths and Weaknesses, and for identifying both the Opportunities open to the company and the Threats company faces.
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Figure 2: Methodology Graph

- Identification of strengths - weaknesses – opportunities and threats - Background Theory
- Risks and Opportunities affecting strategies
- SWOT analysis
- Factors that affect a company strategy
- Risks and strategies a shipping company can follow
- Strategies that follow five shipping companies and assessment, studying annual reports
4. Identification of strengths - weaknesses - opportunities and threats as identified in existing background theory

4.1 SWOT Analysis

SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. It is a popular analysis technique used in planning, problem-solving and decision-making across an assortment of business functions and activities. While there are various types of consultancy firms, a SWOT analysis can be performed as part of the planning process to analyze a firm’s business growth potential. As with all the other SWOT assessment areas, closely evaluate the business objective when determining potential threats. When identifying threats in the business planning stage, the goal is to develop strategies to eliminate or limit the threat.

Strengths

It is difficult to say whether it is better for a company to have a large fleet of ships or not because it is expensive to maintain. Initially, the fleet is the most important tool available to a shipping company to trade in order to make a profit. Therefore, she may consider her biggest asset and the company must protect, maintain and strengthen it.

Good reputation and brand name are also an important matter in order to be trusted and to acquire customers who believe in company’s reliability.

Weakness

The age and size of a fleet and particularly of a ship can be considered a weakness as the average life of a ship is 25-30 years. Beyond this limit, the ship's capacity is diminishing and in many cases the ship is not sea worthy.

Fluctuating demand and supply are a basic problem as they change, the more difficult it is for the company to be able to adapt to changes in the industry.

Opportunities

The goal of each business is to increase its profits. It will therefore use every opportunity that will be given to it for this purpose.
Trading Strategies in the market of tankers

Demographic, environmental, political and socio-economic factors are areas where there may be opportunities for a shipping company.

Technological progress is a good opportunity for a company to evolve and to become more direct and efficient through new technologies.

**Threats**

Overcapacity is a risk faced by many industries. It is reasonable that when this happens the demand for tankers decreases.

Also, we shouldn’t overlook the increase in competition that is constantly growing.

One of the most important threats is the possibility of a reduction in the price of oil as a decrease in oil will cause a decline in the tanker market as freight rate will decrease.

The global financial crisis is always a threat to companies as it affects any factor related to the growth and profitability of the shipping business. Let us not forget the financial crisis of 2008 that caused difficulties and recession in the shipping industry in Greece.

International political and economic conditions (eg terrorism, oil growth, etc.) could have a negative impact on a shipping business. In particular, the increase in oil in tanker industry is a major threat because the demand and therefore the company’s profits depend on it.

Changes in legislation (eg tax increase) it is still a threat that can adversely affect the revenue and profitability of a company itself as these changes occur in a short period of time and cannot be estimated.
4.2 Risks and Opportunities affecting strategies

In the maritime market it is difficult to make decisions about the future of the company. There are some strategies for companies to increase their revenue in terms of their fleet. Nevertheless, there are risks that lie and cannot be omitted. Below is a table with the risks a company faces when it decides to sell a ship, buy a ship, buy a second-hand ship, or proceed to a ship demolition.

**Table 1: Risks and Opportunities affecting strategies**

<table>
<thead>
<tr>
<th>RISKS</th>
<th>PURCHASE</th>
<th>SALE</th>
<th>2ND HAND</th>
<th>SCRAPPING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Prevailing strategy when high prices / low supply is expected</td>
<td>Prevailing strategy when high prices / low supply is expected</td>
<td>Prevailing strategy when high prices / low supply is expected</td>
<td>Prevailing strategy when low prices / overcapacity is expected</td>
</tr>
</tbody>
</table>

**Strengths**
- The fleet.
- Good reputation and brand name

**Weaknesses**
- Age mix
- Size mix
- Floating supply
- Floating demand

**Opportunities**
- Increase in earnings
- Demographic, environmental, political and socio-economic factors
- Technological progress

**Threats**
- Overcapacity (Supply)
- > Competition
- > Price decrease
- The global financial crisis
- Changes in legislation
- International political and economic conditions

Figure 3: SWOT analysis table
<table>
<thead>
<tr>
<th>Overcapacity is expected</th>
<th>Selling price below value price</th>
<th>High maintenance/operation costs.</th>
<th>May scrap a vessel with strong distribution ability. Maybe it’s still worth sailing but got scrapped due to economic reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>May diminish the fleet</td>
<td>Small(er) remaining service life.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude oil crisis. If crude oil prices decrease the demand of tankers will be decreased, too.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5. Identified Risks and Mitigation Strategies

The tanker industry is cyclical and volatile, which can adversely affect earnings and cash flow. The tanker industry is circular and unstable in terms of charter rates and profitability. Fluctuations in freight rates and ship values are due to changes in supply and demand for tankers and changes in supply and demand for oil and petroleum products. The factors that affect the supply and demand for tankers are beyond control and the nature, timing and degree of change in industry conditions are unpredictable and only with the right strategy can their influence be limited.

In the present study, risks and respective mitigation strategies employed by shipping companies have been identified through the consideration of company annual reports. More specifically, the published annual reports of five shipping companies (Tsakos Energy Navigation, Euronav Shipping Management, Scorpio Tankers, Navios Shipmanagement and Breamar ACM) collected from their respective sites were analyzed.

These companies were used to provide data from companies with many ships and with smaller ones, with the aim of collecting data collected from the shipping industry. Moreover, it is known that a company behaves and organizes differently according to the size of its fleet. Euronav and Tsakos has more than 70 tanker vessels today, Navios has more than 30 tankers, Breamar has over 50 tankers and Scorpio tankers has about 50 tanker vessels, too.

5.1 Observed Strategies

Selling and buying a ship is one of the important aspects of the shipping industry. It involves enormous sums of money and requires different kinds of professional knowledge, such as knowledge of the specific type of ship and its operation, legal knowledge as well as the negotiation and negotiation of knowledge, but it also hides many risks that can cost the company. A further strategy used by companies, albeit less, is the demolition of ships, which is a type of ship disposal involving destruction of ships or a source of spare parts, which can be sold for reuse or for the extraction of raw materials, mainly waste. Modern ships have a life span of 25 to 30 years before corrosion, metal fatigue and lack of accessories make it uneconomic to run.

It is also interesting to observe the strategies followed by the five shipping companies for their fleet in the years 2003-2017. These years were chosen because they were considered as representative of the economic crisis in Greece in 2008, to see if there was a difference before and after and to this day.
### Table 2: Observed Strategies for companies

<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>Observed Strategy</th>
<th>Quantity</th>
<th>Global Supply</th>
<th>Global Demand</th>
<th>Average Price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Increase (↑); decrease (↓); stable (-)</td>
<td>Increase (↑); decrease (↓); stable (-)</td>
<td>Increase (↑); decrease (↓); stable (-)</td>
</tr>
<tr>
<td>2003</td>
<td>TEN</td>
<td>Sale</td>
<td>2</td>
<td>↓</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>2005</td>
<td>BREAMAR</td>
<td>Purchase</td>
<td>1</td>
<td>↓</td>
<td>↓</td>
<td>↑</td>
</tr>
<tr>
<td>2006</td>
<td>TEN</td>
<td>Sale</td>
<td>3</td>
<td>↓</td>
<td>↓</td>
<td>-</td>
</tr>
<tr>
<td>2007</td>
<td>TEN</td>
<td>sale</td>
<td>3</td>
<td>↑</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td></td>
<td>NAVIOS</td>
<td>sale</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>TEN</td>
<td>sale</td>
<td>1</td>
<td>↑</td>
<td>↓</td>
<td>↑</td>
</tr>
<tr>
<td></td>
<td>EURONAV</td>
<td>sale</td>
<td>3</td>
<td>↑</td>
<td>↓</td>
<td>↑</td>
</tr>
<tr>
<td></td>
<td>EURONAV</td>
<td>purchase</td>
<td>2 NB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>TEN</td>
<td>purchase</td>
<td>2 NB</td>
<td>-</td>
<td>↓</td>
<td>↓</td>
</tr>
<tr>
<td></td>
<td>NAVIOS</td>
<td>purchase</td>
<td>1 SH</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>TEN</td>
<td>sale</td>
<td>4</td>
<td>↑</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td></td>
<td>EURONAV</td>
<td>purchase</td>
<td>2 NB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EURONAV</td>
<td>purchase</td>
<td>1 NB</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EURONAV</td>
<td>sale</td>
<td>2</td>
<td>↑</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td></td>
<td>NAVIOS</td>
<td>scrap</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAVIOS</td>
<td>sale</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>TEN</td>
<td>Purchase</td>
<td>2 NB</td>
<td>↑</td>
<td>-</td>
<td>↓</td>
</tr>
<tr>
<td>2012</td>
<td>NAVIOS</td>
<td>Sale</td>
<td>2</td>
<td>↓</td>
<td>↓</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>TEN</td>
<td>purchase</td>
<td>2 NB</td>
<td>↓</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td></td>
<td>EURONAV</td>
<td>sale</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annual reports concern the years from 2006 to 2017 and present different approaches to the same observed risks.

### 5.2 Identified risks and mitigation strategies

After studying the financial statements of the shipping companies, the risks reported by the companies in the years 2006, 2008, 2010, 2013 and 2017 were collected. The choice of the years became the focus of the financial crisis of 2008. Starting the study two years ago, the year of the crisis, two years on, three years later, to make clear whether there are different approaches five years after the crisis and 2017 the latest financial statements that have been published. The purpose of the study is to represent a more representative approach to the risks that the same companies report and how they have dealt with or restricted them.

In the table below, beyond the risks and ways of dealing with each company, there is also a probability that the risk will happen, and whether the impact on the company will be high importance. These assessments came from the comments of the financial statements of the companies in every report about the risk.

<table>
<thead>
<tr>
<th>Year</th>
<th>Hazard</th>
<th>Probability (Low - Medium-High)</th>
<th>Impact (Low-Medium-High)</th>
<th>Identified Mitigation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>All fleet sizes</td>
<td></td>
<td></td>
<td>Capitalized and included in deferred charges and amortized over the term of the respective loan using the effective interest rate method.</td>
</tr>
<tr>
<td></td>
<td>Loan costs</td>
<td>L</td>
<td>L</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High oil price</td>
<td>H</td>
<td>M</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fleet size greater than 40 vessels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increasing prices for new built tankers</td>
<td>H</td>
<td>H</td>
<td>Companies preferred second hand ships even though there were smaller.</td>
</tr>
<tr>
<td></td>
<td>(5%-10%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fleet size greater than 50 vessels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bunker price</td>
<td>H</td>
<td>M</td>
<td>Swap arrangement pay a fixed price and received from the counterparty a floating price depended on a monthly arithmetical</td>
</tr>
</tbody>
</table>
### Trading Strategies in the market of tankers

<table>
<thead>
<tr>
<th>Year</th>
<th>Hazard</th>
<th>Probability (Low - Medium-High)</th>
<th>Impact (Low-Medium-High)</th>
<th>Identified Mitigation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>average of daily market price provided by plats.</td>
</tr>
<tr>
<td><strong>2008</strong></td>
<td>All fleet sizes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Concentration of credit risk</td>
<td>M</td>
<td>L</td>
<td>The company limits the exposure of nonperformance by counterparties to derivative instruments by diversifying among counterparties with high credit ratings and performing periodic evaluations of the relative credit standing of the counterparties. Monitoring: The company perform periodic evaluations of the relative credit standing of those financial institutions that are considered in the Company’s investment strategy.</td>
</tr>
<tr>
<td></td>
<td>Freight rate risk</td>
<td>H</td>
<td>H</td>
<td>Use of FFAs to manage and mitigate its risk to its freight market exposures in shipping capacity and freight commitments and respond to fluctuations in the dry bulk shipping market by augmenting its overall long or short position.</td>
</tr>
<tr>
<td></td>
<td><strong>Fleet size less than 40 vessels</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Risks associated with vessels increase as the vessels age</td>
<td>M</td>
<td>M</td>
<td>Sell vessels. Even if earnings could be materially adversely affected due to age.</td>
</tr>
<tr>
<td><strong>2010</strong></td>
<td>All fleet sizes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Growth in world oil demand</td>
<td>M</td>
<td>M</td>
<td>Throughout 2010 the bunker price was considered expensive pushing shipowners to consider slow steaming to reduce the bunker cost.</td>
</tr>
<tr>
<td>A 40 Vessel Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uncertain economy due to earthquake &amp; tsunami in Japan</td>
<td>M</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td><strong>2013</strong></td>
<td>All fleet sizes &gt; 50 vessels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Over-capacity</td>
<td>M</td>
<td>H</td>
<td>Cost management while maintaining its high standards of safety and customer service. Also, if scrapping continues, there are no new orders and slow-steaming continues, there will be a balance between supply and demand.</td>
</tr>
<tr>
<td>A 40 Vessel Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Imbalance crude oil and tanker market</td>
<td>M</td>
<td>H</td>
<td></td>
</tr>
<tr>
<td><strong>2017</strong></td>
<td>All Fleet Sizes</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Trading Strategies in the market of tankers

<table>
<thead>
<tr>
<th>Year</th>
<th>Hazard</th>
<th>Probability (Low - Medium-High)</th>
<th>Impact (Low-Medium-High)</th>
<th>Identified Mitigation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Decrease of market share</td>
<td>M</td>
<td>M</td>
<td>Funds from their shareholders and loans</td>
</tr>
<tr>
<td>A 60 Vessel Company</td>
<td>High operated risk for 2nd hand vessels</td>
<td>H</td>
<td>M</td>
<td>Inspection before the buy.</td>
</tr>
<tr>
<td>A 40 Vessel Company</td>
<td>Fail of a merge</td>
<td>M</td>
<td>M</td>
<td>Management attention and resources to integrating business practice and support functions.</td>
</tr>
<tr>
<td>A small Company</td>
<td>Loss of a vessel</td>
<td>S</td>
<td>B</td>
<td>Frequent inspections, training and insurance.</td>
</tr>
</tbody>
</table>

**5.3 Discussion**

It is worth noting that there are risks to shipping companies that are independent on time and size. The main one is the risk of fares changing. It is a common phenomenon and of great importance as it has the greatest influence on the finances of a shipping company.

In addition, we cannot overlook credit risk. In order to limit the specific, companies are continuously monitored in order to take appropriate actions. A company carries out periodic assessments of the relative creditworthiness of the financial institutions that are considered in the company's investment strategy. As far as credit risk mitigation is concerned, the company limits counterparties' exposure to derivative instruments by differentiating between counterparties with high credit ratings and periodically evaluates the counterparty's creditworthiness.

It is a fact that a vessel has a life-cycle. Hence, there are risks associated with the increased age of vessels. As the age of a vessel increases, the more risks prevail related to seaworthiness and regulation compliance. Shipping companies are not able to sell large vessels even if profits could be significantly affected by age.

Between 2006 and 2008, companies with large fleets have faced the risk of changing fuel prices with a high probability that any change and modest influence will occur in the company. The strategy to limit this risk was to enter into swap agreements to pay a fixed price and to receive from the counterparty a floating price that depends on a monthly arithmetic average of the daily purchase price provided by platforms.

At the same time, an important risk that is underlying and needs to be tackled correctly is one that is of the utmost importance and has a major impact, namely rising prices for new buildings.
Trading Strategies in the market of tankers

(5% -10%). Thus, shipping companies proceeded to a second-hand ship market even if it is less in a spatial state or did not meet all company pre-conditions.

In 2010, high oil prices and the shift to cleaner fuels have led to significant increases in the cost of tanks and lubricants. In order to regulate this situation companies are taking drastic measures. Throughout 2010, the price of fuel was considered costly, prompting shipowners to look at slow steam to reduce fuel costs, which became more frequent as the years passed.

The last five years have been characterized by a tanker industry which is burdened with significant overcapacity, increased operating costs, more demanding arrangements and tighter charter control. Cost effective management is required to maintaining high standards of security and customer service, in an environment where charterers are more demanding and increasingly selective. Also, if scrapping continues, there are no new orders and slow-steaming continues, there will be a balance between supply and demand.

It’s worth saying that 2018 is recorded as the year with the largest number of tankers recycled over the last 15 years. According to Gibson Shipbrokers ship brokerage data, published in the international press, more than 150 tankers of over 25,000 dwt have been sent to ship recycling facilities around the world. Market factors attribute the high number of breakdowns to low fares but also the attractive prices offered for recycling. However, it is interesting that this high number of tankers that was recycled in 2018 will not be repeated in 2019, according to a recent BIMCO report by Peter Sand, Chief Shipping Analyst. The report also states that “the new year is expected to improve earnings from the low levels of 2018 and therefore shipowners will lose interest in selling scrapped ships”. Indeed, Peter Sand notes that in 2019 an increase in the tankers fleet of more than 2% will be recorded, driven mainly by the new refineries in China to be put into operation and will increase demand but also by the increased exports of US oil. However, as noted in the BIMCO report, these are realities that can be overturned. More positive is the outlook for oil-product tankers, which are likely to be positively affected by Sulfur Cap 2020-compliant fuel handling (nautikachronika.gr)

Further, the total loss of any vessel could harm the reputation as a safe and reliable vessel owner and operator. Increased inspection procedures could increase costs and disrupt business. International shipping is subject to various security, customs inspection and related procedures in countries of origin and destination and trans-shipment points. Inspection procedures can result in the seizure of the cargo and/or vessels, delays in the loading, offloading or delivery and the levying of customs duties, fines or other penalties. It is possible that changes to inspection procedures could impose additional financial and legal obligations. Political instability, terrorist or other attacks, war or international hostilities can affect the tanker industry, which may adversely affect shipping industry.
Trading Strategies in the market of tankers

There is always a risk that some or all the expected benefits of a merger may fail to materialize or may not occur within the time periods anticipated. The realization of such benefits may be affected by a number of factors, many of which are beyond control, including but not limited to the strength or weakness of the economy and competitive factors in the areas where business is done, the effects of competition in the markets in which we operate, and the impact of changes in the laws and regulations regulating the seaborne transportation or refined petroleum products industries or affecting domestic or foreign operations.

Secondhand vessels increased operating costs which could adversely affect earnings and, as fleet ages, the risks associated with older vessels could adversely affect the ability to obtain profitable charters. It's useful to inspect such vessels prior to purchase, but this does not provide with the same knowledge about their condition that would have had if these vessels had been built for and operated exclusively by the company. In general, the costs to maintain a vessel in good operating condition increase with the age of the vessel. Older vessels are typically less fuel-efficient than more recently constructed vessels due to improvements in engine technology. Cargo insurance rates increase with the age of a vessel, making older vessels less desirable to charterers.

Market share may decrease in the future. New markets may require different skills, knowledge or strategies than the company uses in current markets, and the competitors in those new markets may have greater financial strength and capital resources. A company must set aside funds and be able to borrow or raise funds for vessel replacement, at the end of a vessel’s useful life the revenue will decline, which would adversely affect the business, results of operations, financial condition, and available cash. Cash flows and income are dependent on the revenues earned by the chartering of vessels. If the company is unable to replace the vessels in fleet upon the expiration of their useful lives, business, results of operations, financial condition, and available cash would be adversely affected. Any funds set aside for vessel replacement will reduce available cash. The ability to obtain additional financing may be dependent on the performance of then existing charters and the creditworthiness of charterers. The actual or perceived credit quality of charterers, and any defaults by them, may materially affect the ability to obtain the additional capital resources that will require to purchase additional vessels or may significantly increase costs of obtaining such capital. The inability of a company to obtain additional financing at all or at a higher than anticipated cost may materially affect results of operations and the ability to implement the business strategy.

We cannot overcome the equilibrium of supply and demand. It is a key factor in the smooth development of global shipping as it is because of this imbalance there is overcapacity. Over the years that have seen their annual reports, there has been no balance between supply and demand, and especially the year 2013 observed overcapacity, and there is a high risk that global
Trading Strategies in the market of tankers

demand has declined, and global supply has risen. In the end, owners must keep in mind that fleet development by ordering new ships is not a way to improve the situation. As the market encounters with oversupply to create balance in supply-demand, it must come up with some risks dominating the industry. With the focus on increasing demand and setting competitive prices on the market, we can see the boom of this segment in maritime transportation.

Therefore, based on the analysis in Chapter 4, it is important to define the strengths of a company and its threats in order to find the right strategy. Shipping companies, with their primary goal of profitability, have some basic strategies to follow. The purchase of a new or secondhand ship, the sale of a ship from their fleet and the demolition of a ship. Also, it is reported the risks the company faces if it chooses one of these strategies.

However, in Chapter 5, the strategies finally followed by the five companies studied in specific years are presented. It is clear that despite the difficulties and risks, shipping companies are at risk of buying and selling even in times of crisis (eg the financial crisis in Greece, Euronav bought two new ships) or to sell their vessels at times when overcapacity in tanker industry is high, as shown in Chapter 5.2 of Table 3, where in 2013 the financial statements report the risk of overcapacity there were sales and purchases of newbuildings as presented in Table 2 of Chapter 5.1.

This can mean either great confidence in the company's capabilities or it is a form of risk for the company to win independently what the impact will be in the event of unforeseen risks.

In conclusion, as the years go by, more and more risks to the shipping industry are coming to the forefront. In addition to the long-standing livelihoods that companies of independent palette and fleet sizes are called upon to face, many events in the global economy, industry, and politics may also cause other problems. Companies need to be vigilant and unwilling to be ready to develop new risk reduction strategies for the least impact on their company's benefits.
6. Comparison

Having analyzed and identified the strengths, weaknesses, opportunities and threats as identified in existing background theory, several situations can be highlighted. It is useful for a company to use the analysis before arriving at a strategy as it is a useful tool to guide the company in the right direction.

Regarding the dangers in the market, the sale of second-hand vessels and the demolition of a ship, it is clear that despite the significant risks that companies continue to use in the market and sale as the main profit strategy. Mainly in 2010, ship sales and purchases, as well as ship dismantling, reached the total fleet size of tankers at 497,864,000 tdw.

Moreover, we should not forget the risk of a global economic crisis, which is a risk that companies often ignore or underestimate. As in 2008, with the Greek financial crisis, the market was characterized by overcapacity, as few companies had predicted the raid, and it was found that they were buying ships that were not demanded. However, the data used in the list of purchases, sales and demolitions of the five companies shows that companies in previous years have made sales and not so much on ship purchases. Perhaps this is evidence that they were expecting a recession in the economy.

Even if the risks are many, companies do not hesitate to profit from risking and buying or selling vessels because there are not many markets on second-hand ships as newbuilding.
7. Conclusions

The global tanker industry is directly linked to the global oil industry. At this time, the demand for sea oil transport is below normal and fleet growth is high, which means that the fundamental balance is uneven. The result is a reduction in the profits of tankers with the main culprit being the rapidly growing fleet. This becomes clear in the course of work as, despite the risks identified, companies continue to increase the fleet with the risk of overcapacity.

In addition, it is equally clear that shipping companies prefer the purchase of a newbuilding ship rather than a second-hand ship as the survey data indicated in this Thesis. Despite the dangers and high cost of buying a new one in an industry where demand is volatile, most shipowners prefer newbuilding ships.

In summary, shipowners should always carefully look at capital structure and investment timetables. Orders and deliveries, as well as sale and purchase strategies, affect both cash flow and balance sheet, affecting the stock-to-debt ratio, and then capital cost as a key factor in the profitability of a shipping company.
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