Ready For A Rebound

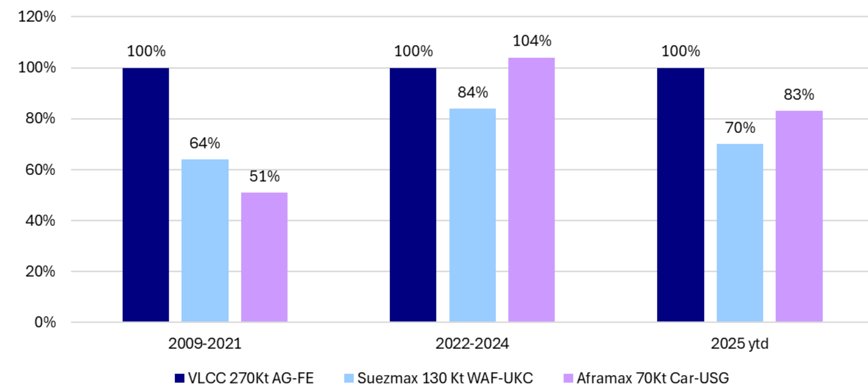
VLCCs are well positioned to lead a tanker market upturn

Throughout its history, the tanker market has been volatile and unpredictable. Many fortunes have been made and lost since private owners took control of the tanker spot market in the 1970s. Boom and bust cycles in our markets were usually driven by the largest vessels in the fleet, the Very Large Crude Carriers or VLCCs. Their size, and the economies of scale they offered to charterers, ideally positioned VLCCs to take advantage of trade flow disruptions and geopolitical unrest. However, this was not the case in 2022, after the Russian invasion of Ukraine. The changes in trade flows that were caused by this conflict primarily benefited Aframaxes and Suezmaxes (and product carriers), while VLCCs languished relative to their smaller brethren. However, there are some indications that the situation could change in the future and that order will be restored: VLCCs will be the top dog again.

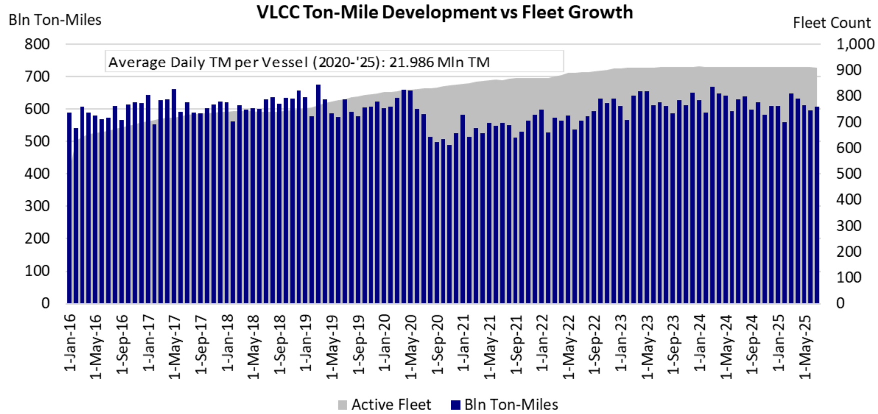
The underlying economics of tanker shipping are quite simple. A charterer will always try to use the largest ship possible to minimize the transportation cost on a per barrel basis. Logistical constraints (draft, terminal size, etc.) will obviously play a role as well, but a charterer will not want to use a Suezmax with one-million-barrel cargo capacity if a VLCC, which can carry two million barrels, is also feasible. Over the years, this has always translated into an earnings premium for VLCCs relative to Suezmaxes and Aframaxes. To illustrate this, we compared the average TCE's for the different segments for three time periods (see Chart 1): 2009-2021 (prior to the war in Ukraine); 2022-2024 (the height of the trade flow dislocations) and 2025 YTD. For the period 2009-2021, Suezmaxes earned (on average) 64% of VLCCs on a Time Charter Equivalent (TCE) basis, while Aframax TCE's during this period averaged 51% of VLCC earnings. Trade dislocations during the war dramatically changed these ratios. Aframax and Suezmax earnings increased significantly as a result of the conflict, with VLCCs earnings lagging behind (on a relative basis). From 2022-2024, Suezmax earnings improved to 84% of VLCCs, an increase of 20%-points. Aframaxes earnings even exceeded those of VLCCs (and Suezmaxes) during this period. While the war in Ukraine is still raging, and Aframaxes and Suezmaxes are still performing above their historical averages, their relative premium over VLCCs has been reduced in 2025 YTD.

This could be an indication of more changes to come. The market has adjusted and responded to the premium earnings for Aframaxes and Suezmaxes. A significant number of (primarily older) vessels have been absorbed into the dark fleet. Increased sanctions and oil prices that have been maintained above the price cap for extended periods of time have reduced the employment opportunities for the mainstream Aframax and

Relative VLCC, Suezmax and Aframax Freight Rates (in TCE)



VLCC Ton-Mile Development vs Fleet Growth



Sources: Poten & Partners, Vortexa

Suezmax fleet. At the same time, several years of premium earnings boosted the orderbook for these segments and deliveries have started to pick up adding some pressure to the rates.

The situation for VLCCs is looking more promising. The underperformance of this segment in recent years has kept the orderbook low and future deliveries modest. Last year, only one VLCC was delivered and this year we could see another low delivery year with 6 additions. This compares favorably to 29 Suezmaxes and 62 Aframax/LR2 deliveries for 2025. VLCC orders have picked up since last year, but the total VLCC orderbook for delivery over the next 4-5 years stands at a relatively modest 11.6% of the fleet, in contrast to a Suezmax orderbook of 18.6% of the existing fleet and a combined Aframax/LR2 orderbook that stands at 16.9% of the fleet.

On the demand side, there are also some favorable developments for VLCCs. First and foremost, OPEC+ is aggressively rolling back its production cutbacks. To the extent that this translates into more oil on the water, this will disproportionately benefit VLCCs. In addition, several U.S. trading partners in Asia and Europe have committed to buying more crude oil from the U.S. Gulf. For Asian buyers this will translate into more VLCC demand. Brazil is already using more VLCCs for its exports and growing Guyana production could offer more potential for VLCCs as well. An end to the war in Ukraine and sanctions relief for Russia could also reshuffle trade flows in favor of VLCCs.