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POTEN TANKER OPINION

Barrels From The Backyard

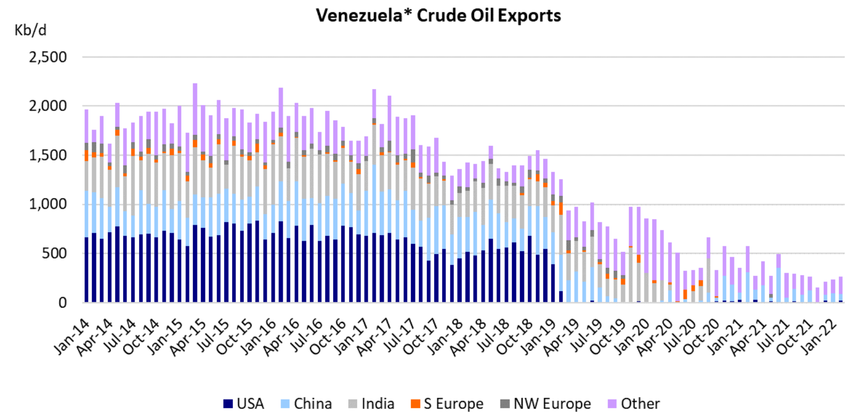
Will more Venezuelan crude boost the tanker market?

Western sanctions on Russia are tightening. Earlier this week, the U.S. President announced a ban on oil, gas, and coal imports from Russia. While U.S. imports of Russian crude oil and petroleum products are relatively limited, Russian exports have already been hit by "self-sanctioning" from many Western oil companies and traders. As a result, an already tight global oil market has become even tighter and oil prices are closing in on record highs. This has led to a global search for additional oil supplies. A coordinated release of 60 million barrels of crude oil from strategic petroleum reserves has had a very limited impact. The U.S. government has asked OPEC to produce and export more (no success so far), is hoping to strike a deal with Iran, and is urging domestic shale producers to grow domestic output. The "all of the above" approach has also led to preliminary discussions between two long-time adversaries, the U.S. and Venezuela. In this Opinion, we will discuss the potential implications for the tanker market if the U.S. eases the oil sanctions on Venezuela.

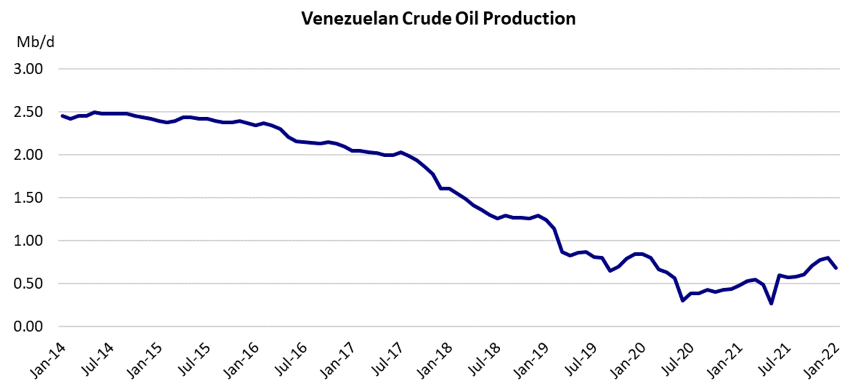
Relations between the U.S. and Venezuela have been frosty for many years, dating back to the regime of Hugo Chavez, the predecessor of Venezuela's current leader, Nicolas Maduro. However, despite the tensions, the U.S. still imported between 500 and 600,000 b/d of crude oil from Venezuela until the end of 2018. In January 2019, Mr. Juan Guaidó, then the head of Venezuela's National Assembly, declared himself interim president of the country, claiming that Mr. Maduro's presidency was illegitimate. Several countries, including the U.S., the U.K. and Canada recognized Mr. Guaidó and the administration of U.S. President Trump started to ramp up the pressure and imposed sanctions on Venezuelan state-owned oil company PDVSA. As a result, U.S. companies could no longer purchase crude oil from Venezuela and exports to the U.S. stopped.

After the U.S. banned Venezuelan crude oil from the U.S., China and India became the leading importers of Venezuelan crude oil. However, under pressure from the U.S., India stopped purchases from PDVSA in April 2019 followed by China a few months later. However, although China stopped direct purchases, it has been accused of still buying Venezuelan crude, using ship-to-ship transfers in the waters around Singapore and Malaysia. The vessels used in this trade are part of the rogue tanker fleet that are also used to transport sanctioned Iranian barrels.

Venezuelan crude oil exports have been declining over the last five years. In 2016, exports still averaged 1.9 million barrels per day (mb/d). In 2017 and 2018, this declined to 1.75 mb/d and 1.4 mb/d respectively. After the U.S. sanctioned PDVSA, exports fell to 915,000 b/d in 2019 and in recent years exports have struggled to reach 500,000 b/d.



*Includes Caribbean Terminals (Aruba, Bonaire, Curacao) Source: Lloyd's List Intelligence



Source: IEA

According to the IEA, Venezuela's oil production bottomed in 2020 at an average of 530,000 b/d. Output recovered slightly to 610,000 b/d in 2021. By the end of the year, production reached 800,000 b/d. Experts have different opinions on how much production could increase if sanctions on PDVSA are lifted, but even conservative analysts think that an increase of 100-200,000 b/d is possible in the short-term. Additional increases will take significant investment and time since the Venezuelan oil industry is in pretty bad shape.

The impact on the tanker market of more Venezuelan is likely limited in the short term. Apparently, the U.S. has indicated that, in exchange for sanctions relief, a portion of Venezuelan's crude has to be shipped to the U.S. This will provide more employment opportunities for Caribbean Aframaxes but given the short-haul nature of this trade, we expect the impact on tonnage balances (and rates) in the region to be limited. On the other hand, the lifting of oil sanctions could also reignite (and legitimize) the long-haul trades to India and China, especially if Venezuelan production recovers some its old glory and reaches 1.5 – 2.0 Mb/d in a few years. This would create additional long-haul employment for VLCCs and reduce the trading opportunities for the rogue tanker fleet, a win-win for the large tanker market.