



POTEN TANKER OPINION



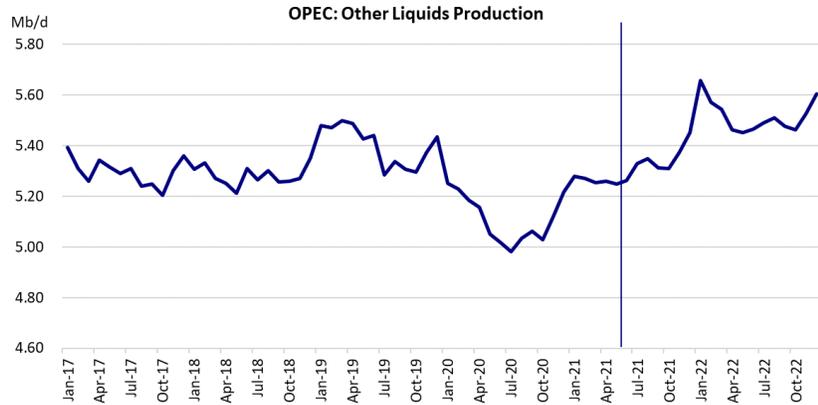
The Light End Of The Barrel

Condensates are an important but loosely defined commodity

If you look up the definition of “condensate”, it quickly becomes clear that it is not a very well-defined commodity. Condensates can be pumped in its liquid form from a well (“lease” condensate) or processed and separated from natural gas at gas processing plant (“plant” condensate). It is a very light (>50 API) hydrocarbon that is used as a refinery feedstock to produce light products such as gasoline and jet fuel. Some condensates, particularly those with a high paraffin content, are used in petrochemical plants to make certain types of plastics. Some countries, like Canada and Venezuela, use condensates to dilute highly viscous heavy crude oils to enable transport via pipelines or tankers. The largest producers of condensate are Russia, the Middle East (in particular Iran), the U.S. and Australia and significant volumes are transported seaborne on tankers. The sanctions against Iran have kept significant condensate volumes off the international market in recent years, but the potential resumption of Iranian exports has excited Asian refiners that are equipped with condensate splitters. Many of them were big customers prior to the sanctions.

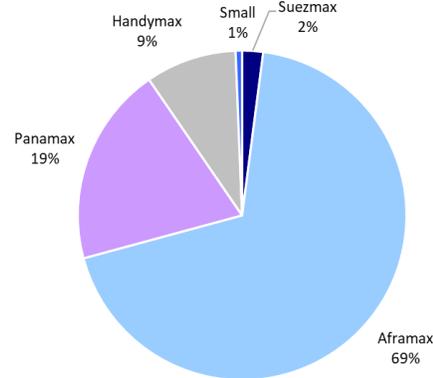
Condensates became a hot topic in the U.S. back in 2014, when the ban on U.S. crude oil exports was still in place. Shale producers were trying to find a home for their growing output of ultra-light crude from wells in North Dakota, Ohio and Texas. In December 2014, the U.S. Department of Commerce’s Bureau of Industry and Security (BIS) issued a public guideline that cleared a path for U.S. condensates to be exported without the need for a special permit. Condensates were effectively classified as a petroleum product rather than crude oil. After receiving the green light from the BIS, U.S. condensate exports reached around 130,000 barrels/day in May 2015. Exports were shipped to Korea, Japan, Brazil and Europe. After the crude oil export ban was lifted, volumes from the U.S. have continued to grow in tandem with rising shale oil and gas output.

Asia is the key market for condensates and many Asian refiners equipped with condensate splitters and petrochemical plants are hoping that U.S. sanctions against Iran will be lifted later this year. Iran is one of the largest producers of condensate within OPEC with domestic sources claiming 550,000 b/d of output currently. Most of Iran’s condensate is produced from the country’s giant South Pars gas field which Iran shares with Qatar in the Persian Gulf waters. Before the U.S. sanctions, most of Iran’s condensate was exported to South Korea and Japan. In recent years, Iran diverted most of its condensate to domestic refineries. Asian refiners have been forced to source condensates from Norway, West Africa, the U.S. as well as Qatar and Australia. However, many of these exporters have only



Source: DOE Energy Information Administration

2020 / 2021 Condensate Spot Fixtures By Vessel Class



Source: Poten & Partners

small volumes available and the Asian customers are eager for the Iranians to return to the market.

Total OPEC production of “Other Liquids”, which mainly consists of condensate, declined from 5.43 Mb/d in December 2019 to 4.98 Mb/d in July 2020, before recovering to 5.26 Mb/d in June 2021. In their latest Short Term Energy Outlook, the EIA forecasts that the output of Other Liquids will grow to 5.6 Mb/d in 2022. This is good news for Asian refiners, provided sanctions on Iran are lifted.

Using Poten’s proprietary fixture database, we did an analysis of what type vessels shipped cargoes of condensates during 2020/2021. The results show that condensate is typically shipped on small to medium sized oil tankers. Most shipments are done on Aframax and Panamax, while Suezmax and VLCCs are relatively rarely used (see Chart 2). While there are no special requirements for the transportation of condensates, it is more flammable and explosive than normal crude oil, making it a little more tricky to transport. In 2018, the 2007 built Iranian Suezmax Sanchi collided with a Chinese bulk carrier in the East China Sea. The collision caused a massive explosion on the Sanchi, which was carrying a cargo of condensate.

Replacing condensate barrels from the Atlantic with volumes from Iran will not, by itself, have a positive impact on ton-miles. However, increased demand due to a global post-Covid recovery and expected growth in the petrochemical industry will lead to higher transportation volumes.