



## POTEN TANKER OPINION



## Back To The Negotiating Table

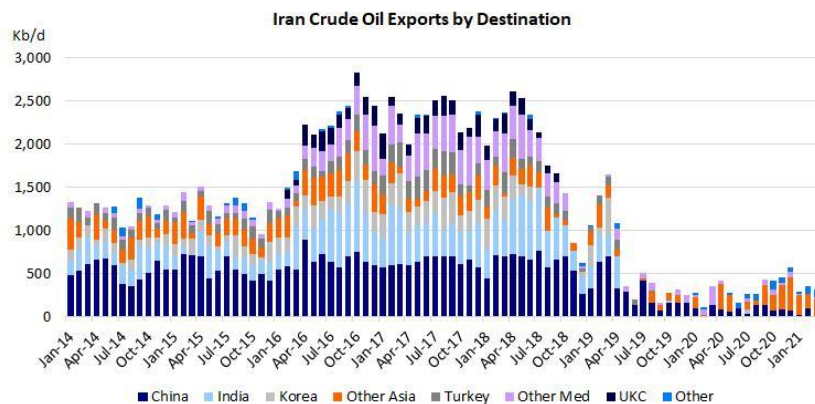
## Would more Iranian crude exports help the tanker market?

OPEC+ has announced that it will gradually increase production from May through July of this year, potentially adding more than 2 million barrels per day (Mb/d) of crude to the market over this period. In theory, this should be good for the tanker market, because this oil will have to be moved somewhere. Despite concerns about continued high Covid-19 cases (and lockdowns) in Europe and a spike in cases in India and other parts of the developing world, OPEC+ seems to be confident that oil demand will continue to recover. The news about the OPEC+ production increase was followed a week later by the announcement that the United States and Iran started indirect conversations (the parties are communicating through European intermediaries) in Vienna about reviving the 2015 Joint Comprehensive Plan Of Action (JCPOA), otherwise known as the Iran Nuclear Deal. A deal is by no means certain or imminent and negotiations will probably take a long time. However, even if the negotiations are successful, the impact on the tanker market is not clear-cut.

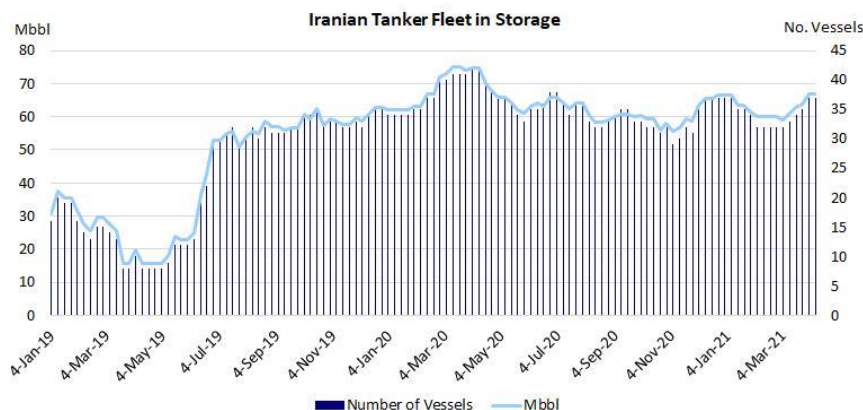
When President Trump pulled the U.S. out of the JCPOA and reimposed sanctions on the country, crude oil exports from Iran collapsed (figure 1). In the period that the JCPOA was “active”, Iran exported between 2.0 and 2.5Mb/d of crude oil. Its two largest customers were China and India. After the U.S. tightened their sanctions in 2019, India stopped buying Iranian crude oil. The situation with China is more murky. After U.S. sanctions were imposed, China significantly reduced its imports from Iran, but it never completely stopped. As a matter of fact, industry observers believe that most of the oil that is exported to “other Asia” is transshipped offshore and ultimately ends up in China. A lot of this oil is moved on what Lloyd’s List and Lloyd’s List Intelligence (LLI) call an “unregulated subterfuge tanker fleet”. In a special investigation, LLI identified up to 150 tankers engaged in deceptive and evasive practices. These vessels tend to be old (many are more than 20 years old), poorly maintained and frequently without Hull & Machinery insurance. In addition to moving Iranian crude, these vessels are also suspected to be engaged in other clandestine trades, such as the shipment of U.S. sanctioned Venezuelan oil.

China and Iran have an increasingly close relationship. Last month they signed a 25-year cooperation agreement, which will most likely lead to massive Chinese investment in Iran’s infrastructure and petrochemical sectors, among others. Iran will become an important part of China’s Belt and Road Initiative. More Iranian oil will surely flow to China as a result.

What will happen to the tanker market if Iran and the U.S. come to an agreement and decide (together with the other JCPOA members) to restore the Iran Nuclear Deal and lift sanctions?



Source: Poten / Lloyds List Intelligence



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India has indicated that they are eager to start importing Iranian crude oil again as soon as the sanctions are lifted. The impact on the tanker market will be muted, because Iranian oil will most likely replace other Middle Eastern grades in India, so the impact on ton-miles will be limited. The same can probably be said for most of the other Iranian clients once they resume shipments.

The bigger impact (in the short- to medium term) will probably be on the supply side of the equation. Since early 2019, Iran has been forced to use its national tanker fleet for floating storage. April numbers from LLI show that some 37 Iranian tankers (31 VLCCs, 5 Suezmaxes and 1 Aframax) are used to store 66 million barrels of crude oil (figure 2). If the sanctions are lifted, many of these vessels will discharge their cargo and then rejoin the international fleet, adding tonnage to an already oversupplied market. However, on the plus side, the lifting of the sanctions would legitimize Iranian exports and reduce the employment opportunities for the “subterfuge tanker fleet” and many of these vessels could end up getting scrapped. Therefore, it is hard to say whether the lifting of sanctions against Iran will be a net positive or negative for the tanker market. It will also depend on the timing of this event. If it happens, it would be better if it occurs towards the end of this year or in 2022, when oil demand has recovered and the market can more easily absorb additional capacity.