



POTEN TANKER OPINION



Balance Of Trade

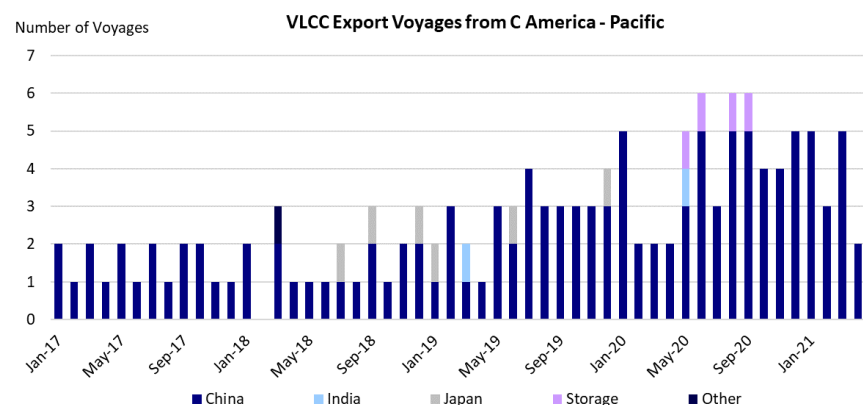
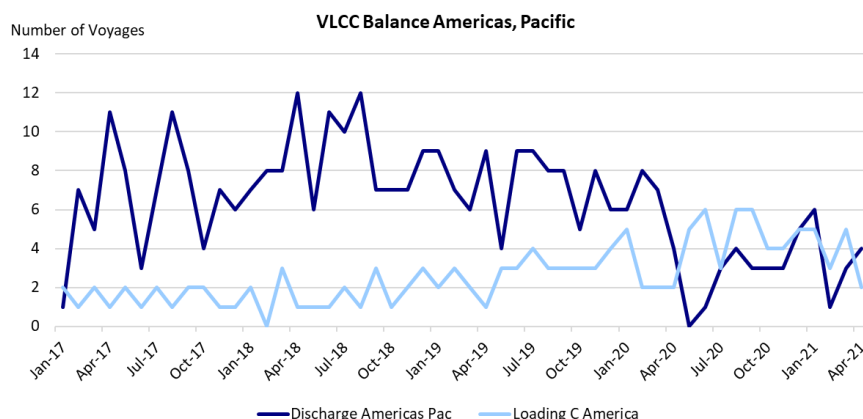
Changing trade patterns impact West Coast VLCC employment

Historically, the global VLCC trade has been dominated by large volumes of crude oil moving from the Arabian Gulf to Europe, the U.S. Gulf and Asia. The west coast of Latin America and the United States did not generate a lot of VLCC demand. The only regular trade used to be from the AG to the U.S. West Coast, where VLCCs (as well as the occasional ULCC) would deliver crude oil to several refineries in California. It used to be the case that these vessels would then have to ballast back to the AG or go around Cape Horn to pick up a cargo in the Atlantic. The lack of backhaul business made this a relatively unattractive “niche” trade that not every owner would consider. However, this has gradually changed in recent years. In this week’s Tanker Opinion we will discuss the recent developments and the potential for further changes in the coming years.

It seems that the number of VLCCs discharging on the Pacific side of the Americas has declined slightly over the years, while the opportunities to load VLCCs in the area have increased over the same period. Chart 1 shows that in 2017 and 2018 there were 8-10 VLCCs per month discharging on the Pacific side of the Americas, while loadings averaged only 2 per month. This meant that there was very limited backhaul business for the vessels that made the long trip across the Pacific. Since 2019, the market has become more balanced, although Covid-19 made 2020 a highly unusual year and we have to be careful not draw too many conclusions based on that.

We expect that VLCC traffic to the U.S. West Coast will recover to some extent in 2021 and beyond. There are various competing dynamics at work on the U.S. West Coast. Historically, West Coast refiners have predominantly run domestic (California) crudes, complemented by ANS grades from Alaska (moved on Jones Act tankers) and some long-haul imports from the Middle East. In recent years, we have seen some diversification of supply sources because both local production and Alaskan output have been declining. This downward trend is expected to continue.

Some of the shortfall on the West Coast is made up by Canadian crude from Vancouver, exported through the Trans Mountain pipeline. The planned expansion of the Trans Mountain pipeline (from 300,000 b/d to 890,000 b/d) will significantly increase the availability of this crude in the future. We expect that some of this crude oil will end up in China. Several Chinese oil companies, including CNOOC, Petrochina and Sinopec have taken ownership interests in Canadian oil production and are eager to bring this crude home. The export facilities in Vancouver are limited to Aframax sized vessels, but offshore reverse lightering (similar to what is happening in the U.S. Gulf) could make this a VLCC trade.



Source: Lloyd's List Intelligence

Currently, virtually all of the VLCC exports from the Pacific coast of the Americas originate from Panama. Most are loaded in Puerto Armuelles, at the Pacific side of the Trans Panama pipeline, with the remainder loaded offshore Panama in reverse lightering operations. In 2020/21, almost all VLCC export voyages from Panama went to China. The crude oil comes from a variety of sources, including Colombia, Ecuador, and Guyana. Some of these exporters, in particular Guyana, is expected to increase its production significantly in the coming years, leading to more exports to China (CNOOC has a 25% interest in the Stabroek Block).

Because the export volumes in the area have increased in number and are now closer aligned with the import volumes, the VLCC market on the west coast of the Pacific is more balanced. This has changed the supply-demand dynamic for these vessels. In 2018/2019, when VLCC import cargoes outnumbered export cargoes 4 to 1, virtually all the export vessels ballasted down from the U.S. West Coast. In 2020 and 2021 YTD, this was no longer the case. Now about a third of the vessels that load in Panama are ballasting in from the China Sea.

We expect both imports and exports on VLCCs to grow in the coming years, making the west coast of the Americas a growing source of employment for VLCCs, both in terms of tons and ton-miles.