POTEN TANKER OPINION

More Barrels From Brazil

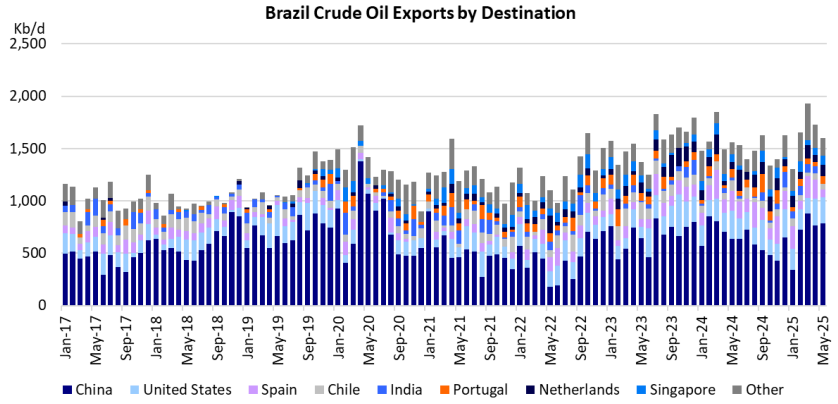
Production and export growth will lift tanker demand

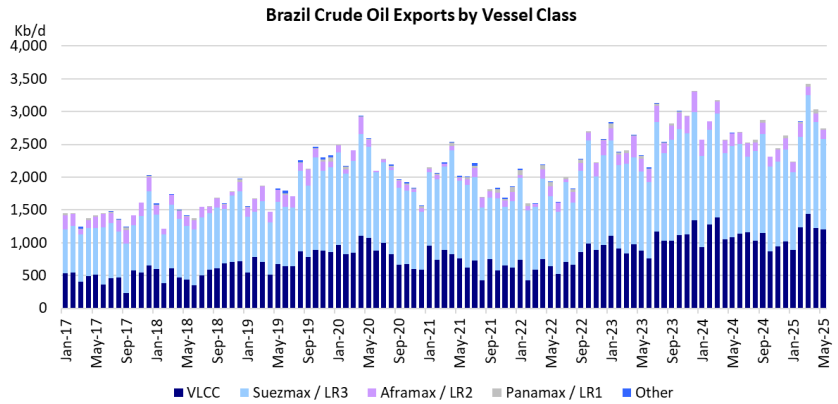
Brazil is by far the largest crude oil producer in South America. It is the 9th largest crude oil producer in the world, ranking just behind the United Arab Emirate (UAE) but well ahead of Kuwait, which are both members of OPEC. Brazil joined OPEC's "Declaration of Cooperation" (OPEC+) in February 2025, but unlike the other members of OPEC+, Brazil does not have any production obligations. It has no quota and can produce (and export) as much oil as it is able to. Brazil's crude oil production, most of which comes from deepwater and ultra-deepwater offshore fields, has been up and down in recent years, but the outlook for this year and next year is very positive. According to the International Energy Agency, Brazil will add 450,000 b/d of production in both 2025 and 2026. More growth is expected in future years. As we will discuss in this week's Tanker Opinion, all this bodes well for the tanker market.

Oil exploration and production in Brazil has a long history. Oil exploration activity dates back to the second half of the 19th century. The first commercial oil discovery was made in 1939 in Bahia province, in (north)eastern Brazil. In 1953, by the time state oil company Petrobras was established, domestic oil production was still minimal at only a few thousand barrels per day. Throughout the 1960s and 1970s, Brazil gradually shifted its exploration focus offshore. The discovery of the Campos Basin offshore field in 1974 was a turning point. At the time, Brazil's production stood at 182,000 b/d. Production grew rapidly throughout the 1980s to reach 650,000 b/d in 1990. In the 1990s, major deepwater discoveries (Marlim and Roncador) propelled further growth. In 2006, Petrobras discovered the first "pre-salt" oil in the Campos Basin, located beneath a thick salt layer in water depths of around 2,000 meters. Production from pre-salt fields began in 2010. At that time, Brazil's production already exceeded 2.0 Mb/d. In 2020, output reached 3.0 Mb/d. Current production is around 3.4 Mb/d and by the middle of 2026, output will likely exceed 4.0 Mb/d.

About 96% of Brazil's production comes from offshore fields. Brazil's offshore oil production evolved from modest beginnings in the 1960s to a world-leading position in deepwater and pre-salt exploration and production. The size and technological sophistication of Brazil's offshore industry is unmatched in the world. As of June 1st, 40 offshore drilling rigs were employed in Brazil. About 115 offshore fields are currently producing or under development. Brazil employs a large number of FPSO's (Floating Production Storage and Offloading units) and Shuttle Tankers to bring the oil to market.

Brazil has a meaningful domestic refining industry, but a significant portion of its production is exported. Exports have





Source: Vortexa

grown in line with production, from about 1.0 Mb/d in 2017 to an average of 1.55 Mb/d over the last 12 months. Since 2017, China has been the largest importer of Brazilian crude, taking an average of 50% of their exports. Europe and the United States are second and third, with European imports picking up after the Russian invasion of Ukraine. As Brazil's production and exports increase in the future, we expect that a significant portion (30-40%) of the additional barrels will go to China. Several major Chinese oil firms, including China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC) and Sinopec have stakes in key Brazilian oil fields.

The location of Brazil's oil production is advantageous for the tanker industry. Virtually all oil fields are in deep or ultra-deep water offshore, necessitating the use of sophisticated FPSO's and shuttle tankers. Brazil employs more shuttle tankers than any other offshore production region in the world. A lot of these shuttle tankers are tailor made for their respective fields, many with sophisticated bow-loading systems and equipped with dynamic positioning. That means that these tankers are too expensive to deliver oil to the end users. Regular tankers are needed to take the oil to market. Given the distance of Brazil to it main markets in Asia, the U.S. and Europe, a growing percentage of the long-haul shipments, in particular those to China, are done on VLCCs. The share of VLCCs in Brazil's exports in expected to continue to grow as production expands. However, Suezmaxes will remain an important asset class, especially for the European market.