



POTEN & PARTNERS

November 15  
2024

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## POTEN TANKER OPINION



### Fill It Up?

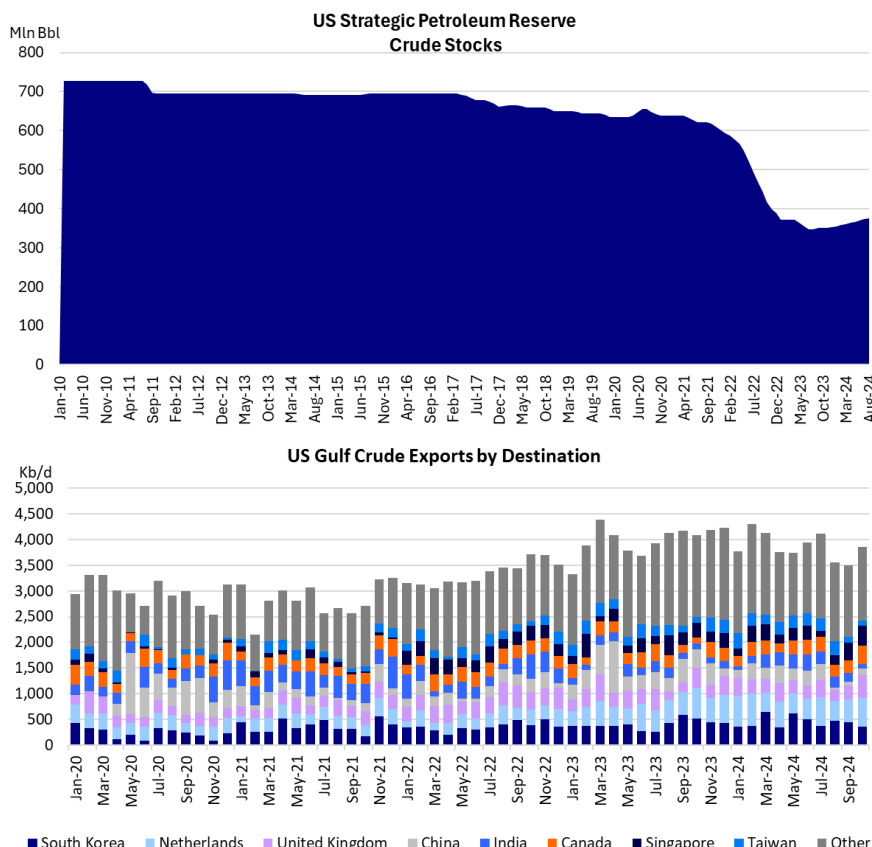
#### What are the market implications if the US SPR is refilled?

In a continuation of our series that discusses the potential implications for the oil and tanker markets of a second Trump administration, we will take a look at the U.S. Strategic Petroleum Reserve (SPR). As we discussed last week, the incoming president is a strong supporter of the domestic oil industry, and favors U.S. "energy independence". On the campaign trail he has repeatedly said that he will immediately refill the SPR if he is re-elected. In today's Tanker Opinion, we will see what this may look like from a tanker perspective.

To provide some context, we should go back to Mr. Trump's first term in office. In the early years of his administration, President Trump authorized sales from the SPR to generate revenue and reduce the federal deficit. During his full term (from January 2017 - January 2021), the SPR declined by 57 Million barrels, from 695 Million barrels to 638 Million barrels. However, this does not tell the full story. In March 2020, amid the Covid-19 Pandemic, Mr. Trump directed the Department of Energy (DOE) to refill the SPR by purchasing an additional 77 million barrels of U.S. crude. This move was aimed at supporting the domestic oil industry, which was facing significant financial challenges due to plummeting demand and low prices caused by COVID-19. However, these plans faced opposition in Congress. Congressional Democrats criticized the proposal as a "bailout" for the oil industry, leading to a lack of appropriations needed to execute these purchases.

Under President Biden, the SPR declined dramatically, from 638 Million barrels in January 2021 to a bottom of 346 Million barrels in July 2023, a decline of 292 Million barrels. Most of these SPR releases were done in 2022 to support the oil market (and bring prices down) after the Russian invasion of Ukraine. Since Mid-2023, the SPR levels have gradually increased as the administration has authorized crude oil purchases to gradually refill the SPR. As of November 2024, the SPR stands at 387 Million barrels, 40 Million barrels above the Mid-2023 minimum, but still some 250 Million barrels below the level when Biden took office.

Obviously, we don't know what Mr. Trump will do in his second term. However, based on his campaign promises, it would surprise nobody if he initiated an SPR refill program to support the domestic oil industry and stimulate more production. Mr. Trump will have a majority in Congress, so the Democrats in Congress will not be able to stop him this time. Depending on how quickly Mr. Trump wants to do this, this could be a major boost to domestic oil demand. However, President Trump will not want to push up domestic oil (and gasoline) prices, so it is a process that he will want to manage carefully.



Source: EIA, Vortexa

The impact on the tanker market of a refill of the SPR depends on a number of factors, such as the speed of the purchases and the nature of the program (whether the DOE wants to buy only domestic crude or if foreign barrels can also be offered to the SPR). If the administration decides to purchase crude oil at a rate of 500,000 barrels/day, it will take 500 days to bring the levels back to when Trump left office the last time. That would be a major boost to global oil demand. The best approach is probably to make opportunistic purchases, which can be accelerated when oil prices are deemed low and scaled back or halted when prices are deemed to be too high.

When the SPR was initially filled, back in the mid-1970s, crude was sourced from both domestic and international sources. In more recent years, as US domestic production has increased dramatically, the SPR has received a larger proportion of domestic crude. Even if it is not mandated, a refill will likely consist predominantly of domestically sourced crude oil. OPEC would love it. An SPR refill would support oil prices and reduce competition from US exporters in the international market. The impact on the tanker market would be uncertain. Since the Russian invasion of Ukraine, Europe boosted its imports of US crude. A reduction in US exports could force Europe to import more (longer-haul) crude from the Middle East adding to ton-mile demand. On the other hand, less US exports to Asia, if replaced by Middle Eastern barrels would reduce ton-mile demand. Conclusion: There are a lot of moving parts and time will tell if a refill of the US SPR will help or hurt the tanker market.