



# POTEN TANKER OPINION



## Brazil's Oil Boom

### Continued growth in Brazilian exports support tanker markets

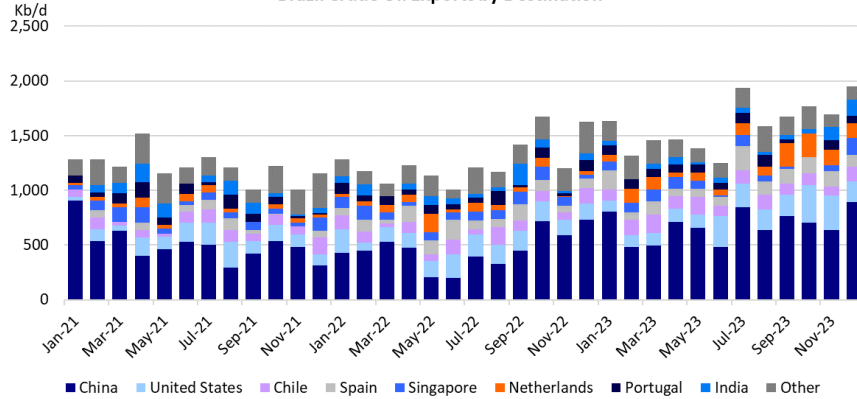
In recent years, whenever oil and tanker analysts talk about the growth in non-OPEC production, they always mention a small number of countries. The usual suspects are the U.S., Guyana, Canada and last, but not least Brazil. In this week's Tanker Opinion, we'll discuss the growth in production and exports from Brazil in recent years and the outlook for future expansion as well as the implications for the tanker market.

To set the scene, Brazil is the largest oil producer in South America and number seven in the world. More than 95% of Brazil's production comes from deepwater offshore fields, predominantly in the prolific pre-salt province. In 2023, Brazil produced an average of 4.21 Mb/d (according to the EIA). This is 450,000 b/d (12%) more than in 2022. The IEA forecasts another 150,000 b/d increase for 2024 and 160,000 b/d in 2025. Brazil's pre-salt deposits, which are located at depths of up to 7,000 meters below the sea level, presented significant technical challenges and required massive investments to be developed. However, now these fields are highly productive and cheap to produce. According to Rystad Energy pre-salt oil from Brazil costs approximately \$35/barrel to produce. It also has a relatively low emissions intensity. The CO2 emitted in the production is half the global average for a barrel of oil.

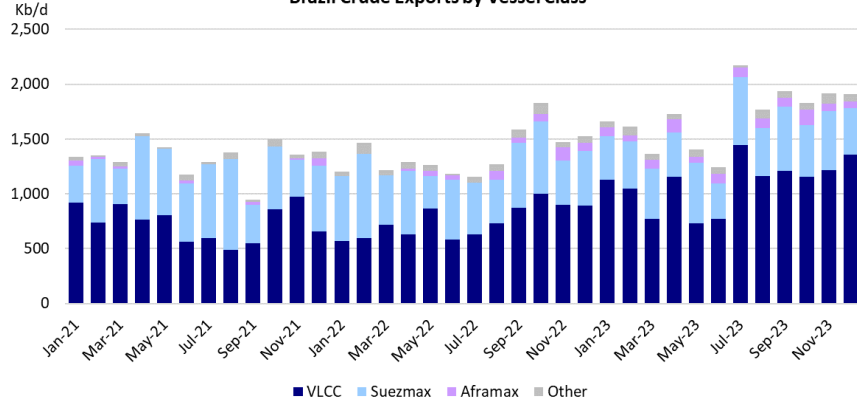
Compared to the previous administration of Mr. Bolsonaro, the current president, Mr. Luiz Inácio Lula da Silva is more focused on sustainable development and greater ecological protection. However, the combination of competitive break-even costs and low emissions intensity means that the government of Brazil is still determined to develop its resources. Brazil's target is for the country to produce 5.4 Mb/d at the end of the decade. This would make Brazil the fourth largest oil producer in the world, after the United States, Russia and Saudi Arabia, but ahead of Canada, Iraq and China.

While Brazil has a sizeable domestic refining industry, oil production has been growing faster than domestic demand and crude oil exports have therefore been on an upward trajectory. Brazil has a strategic location and good port infrastructure and exports its crude oil to a variety of countries, both in the Atlantic Basin as well as in the Pacific (Chart 1). China is by far the most important buyer of Brazilian crude, taking almost 40% of seaborne exports over the last three years (2021-2023). The U.S. is a distant second with 11%. Chile takes 7% and the remainder mostly goes to a variety of countries in Europe and Asia. Europe became a more important customer for Brazilian crude after Russia's invasion of Ukraine, replacing some of the Russian Urals. Exports to Europe increased from 193,000 b/d in 2021 to 347,000 b/d in 2023, an 80% rise in two years.

Brazil Crude Oil Exports by Destination



Brazil Crude Exports by Vessel Class



Source: Vortexa

The vessel segments involved in Brazil's exports have also changed in the last three years, with VLCCs taking a larger share. From 2021 (pre-Russian invasion) to 2023, the market share of VLCCs increased from 55% to 64%. Over the same period, the Suezmax share was cut from 39% to 26%. VLCCs primarily increased their market share in Europe. In 2021, only 3% of Brazil's exports to Europe moved on VLCCs, with 84% going on Suezmaxes. In 2022, this had changed to 22% VLCCs and 65% Suezmaxes. This trend continued in 2023, when the VLCC market share increased to 41%, and Suezmaxes down to 48%. As we mentioned before, exports from Brazil to Europe increased dramatically over the last two years and most of these incremental barrels moved on VLCCs. Exports from Brazil to China also increased, in particular in 2023, when volumes reached 667,000 b/d (up from 463,000 b/d in 2022). Virtually all exports to China (>95%) are going on VLCCs.

In addition to being a large exporter, Brazil also imports crude oil. Most of Brazil's domestic production is heavier crude (API gravity < 25) and their domestic refineries need to complement these grades with imported lighter crudes. Since 2021, they import about 200,000 b/d, mostly light sweet crudes from Saudi Arabia, the U.S., Algeria and Nigeria. From January 2022 onwards, Brazil also started to import modest quantities of crude oil from Guyana. Not surprisingly, most of the crude oil from Saudi Arabia arrives on VLCCs, while Suezmaxes dominate the trades from the United States and Guyana.

The future of Brazilian production and exports is bright. Based on recent trends, we expect VLCCs to be the main beneficiary, followed by Suezmaxes.