



POTEN TANKER OPINION



Approaching The End Of An Era

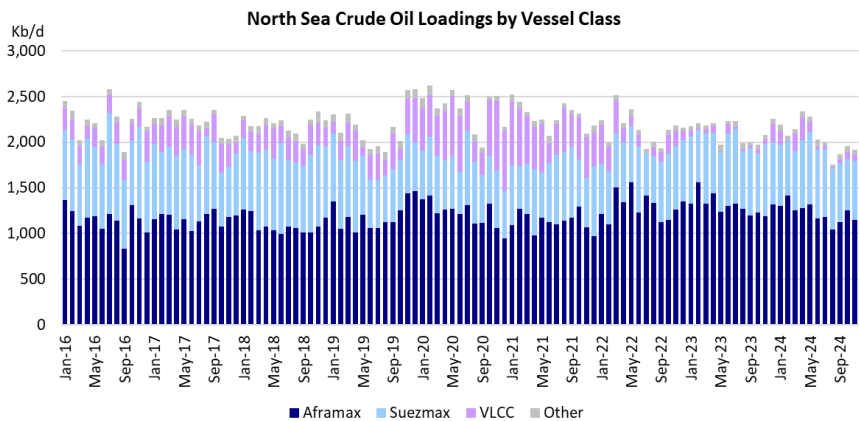
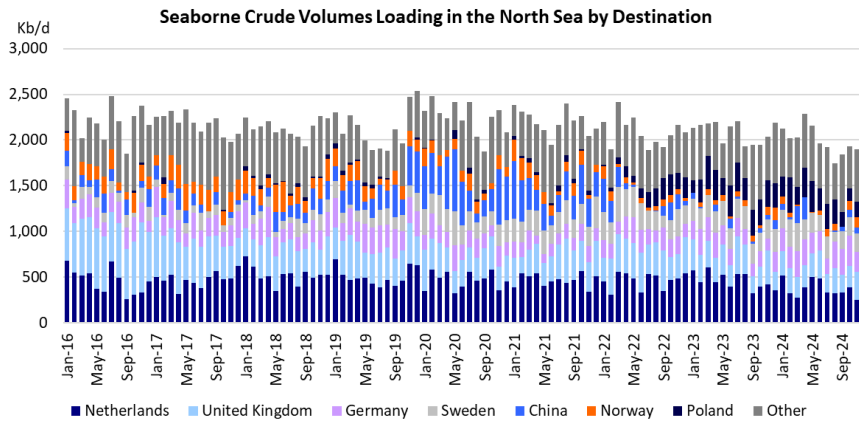
Lower North Sea output accelerates fall in ton-mile demand

Yesterday, Equinor and Shell, two major European oil companies with a rich history of exploration and production in the North Sea decided to combine their UK offshore oil and gas assets in a 50/50 Joint Venture (JV). The JV is not growth oriented. To the contrary, the JV will harvest value as the assets naturally decline. The objective is to improve the tax efficiency of the operations and pool their costs. It is the latest development in the rapidly maturing UK North Sea basin. While the situation in the Norwegian Continental Shelf is more positive in the short-term, with output expected to grow slightly in 2025, the long-term trajectory for Norway is also challenging. The IEA expects the total North Sea production will decline by 400,000 b/d by 2030. These changes in North Sea production and exports have obvious implications for the tanker market.

The first significant offshore oil discovery in the North Sea occurred in 1969, when Phillips Petroleum discovered the Ekofisk field in the Norwegian sector of the North Sea. Production started in 1971 and today, Ekofisk remains one of the most important oil fields in the region, producing approximately 127,000 b/d. The oil crises of the 1970s, including the 1973 OPEC oil embargo and the 1979 Iranian revolution led to sharp increase in oil prices, causing widespread economic turmoil in Western Europe and the United States. As a result, these countries, realizing their dependence on the Middle East and other external sources of energy, started to focus on developing alternative sources of energy supply. The significant increase in prices also created an economic incentive for countries to develop their own oil resources. The UK and Norway accelerated exploration and production efforts in the North Sea.

Prior to 1970, Romania (!) was the largest oil producer in Europe (outside of the Soviet Union). By the mid-1970s, production in Norway and the United Kingdom started to ramp up. In 1970, their combined production was only 4,000 b/d. By 1976, this had increased to 537,000 b/d. North Sea production surpassed 2.0 Mb/d in 1979, 3.0 Mb/d in 1983 and 4.0 Mb/d in 1991. North Sea crude oil output peaked in 2000 at close to 6.5 Mb/d before a gradual decline set in. This drop in production stopped and stabilized in 2012/2013. Output has been fairly stable since then, with declines in the UK compensated for by increases in Norwegian production. For the moment Norway remains committed to continued exploration and production. However, the expectation is that the longer-term trend is for production to go down as European countries are moving away from fossil fuels due to environmental concerns and legal challenges.

Historically, a significant portion of the North Sea output has been shipped to short-haul destinations in Europe (Netherlands,



Source: Vortexa

UK, Germany, Sweden), primarily in Aframax and Suezmax tankers. In 2018/2019, China became a more significant importer of North Sea crude. These volumes were transported on VLCCs. The North Sea – Asia route is one of the world’s longest for crude oil tankers and the increase in Chinese demand was a boost for tanker ton-miles. Chinese demand for North Sea crude increased further in 2020 – 2022, coinciding with the startup of the massive Johan Sverdrup field. During this period, China was the largest importer of this new medium sour crude, which was a good fit for Chinese refiners.

When Russia invaded Ukraine, everything changed. European refiners stopped buying Russian Ural crudes and North Sea crudes partially filled the gap, reducing the availability of these crudes for Asian refiners. Instead, China is now buying significant volumes of Ural crudes. These changes have altered the shipping dynamics. The VLCC trade ex-North Sea, which was booming in 2020-2021, collapsed and the utilization of Aframaxes and Suezmaxes increased.

It is difficult to be definitive about the changes that are in store for the future. Refiners in countries like Sweden, Finland and Poland are now significant buyers of North Sea crude and it is unlikely that they will revert back to buying Urals, even if the conflict in Ukraine ends. This could permanently reduce the availability of North Sea grades for Asian buyers. This means that the long-haul VLCCs trade that was blossoming in the years prior to the Russian invasion may not come back, and be reduced to the occasional arbitrage shipment. Aframaxes and Suezmaxes will be in charge of the North Sea crude oil trade.