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POTEN TANKER OPINION

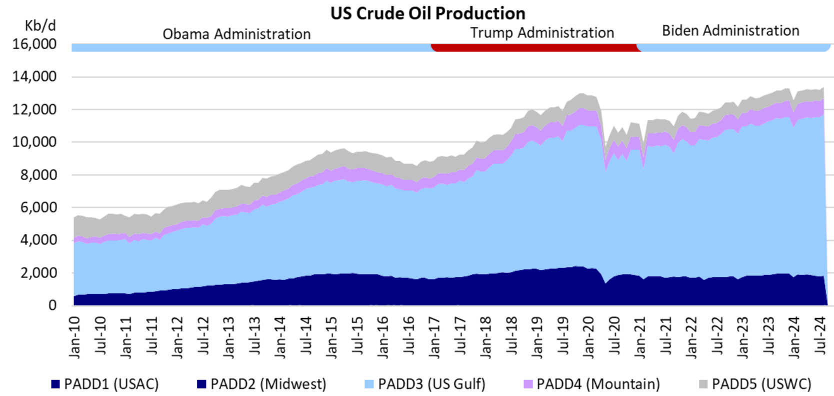
He's Back!

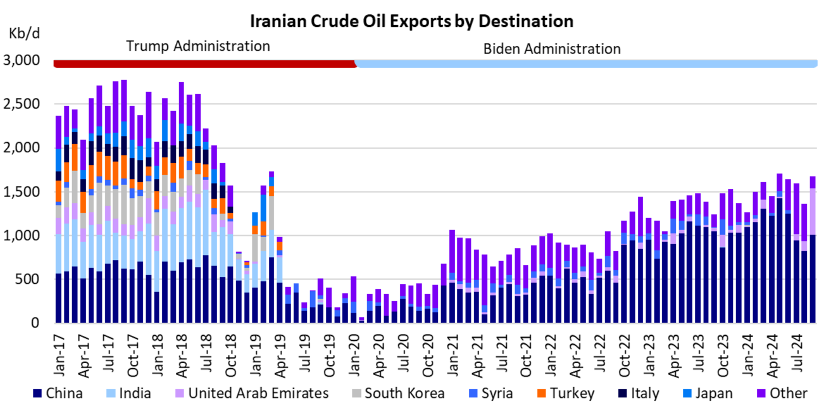
What to expect in President Trump's second term?

If everything goes according to plan, Donald Trump will be inaugurated on January 20, 2025 as the 47th President of the United States. After a remarkable comeback, the Republican nominee won a convincing victory in Tuesday's presidential election. The republican party also regained control of the U.S. Senate. At the time of writing the majority in the House of Representatives is not yet decided, although the Republican party is leading. The questions on everybody's mind are the same: What will a second term of Donald Trump look like? How will his policies impact the oil and tanker markets? What will be the geopolitical implications? Obviously, nobody knows the answers to these questions, but based on what happened during Mr. Trump's first term in office and considering what he said on the campaign trail, there are a number of focus areas that are relevant to our industry. In this Tanker Opinion, we will discuss two of them: (1) increased focus on U.S. crude oil production and (2) tightening of sanctions against Iran. Other topics, such as Russia/Ukraine war and the potential impact of tariffs may be discussed in future Opinions.

First, on the domestic front, the focus is on crude oil production. During Mr. Trump's first term (until the start of the pandemic), U.S. oil production grew rapidly (see Chart 1). The main reasons for the expansion were a combination of low interest rates and an oil industry that was focused on growth rather than profitability. The President was a cheerleader for the industry with catch phrases like "drill, baby, drill". He also rolled back regulations to promote more drilling, concentrating on "Energy Independence". When Mr. Biden took over in 2021, the oil industry started to recover from the pandemic and production growth resumed. The industry went through a wave of consolidation and the remaining companies put more focus on capital discipline. Shareholder returns were boosted by higher prices as a result of geopolitical tensions, first in Europe, when Russia invaded Ukraine and later in the Middle East. After the Russian invasion, President Biden released more than 200 million barrels from the U.S. Strategic Petroleum Reserve (SPR) to stabilize prices. As Mr. Trump takes office for a second term, he will try to trigger a reacceleration of U.S. oil production growth with further deregulation and making more federal lands available for drilling. However, it will ultimately be the oil companies who will make the decisions, which will be based on the current market and future outlook.

The situation in the Middle East will also get much attention from the Trump administration. The U.S. will likely be 100% behind Israel in its conflicts with the Palestinians and Iran. Iran will be a particular focus of the new U.S. government. It is expected that Mr. Trump will renew his "Maximum Pressure" campaign against Iran. In his first term, President Trump withdrew the U.S. from the Iran Nuclear deal and reimposed a full embargo on Iran's crude oil exports in 2019. As a result, Iran's crude oil shipments collapsed from 2.5 Million barrels per day (Mb/d) in the first half of 2018 to 250,000 b/d (Chart 2). During the Biden administration, sanctions were not strictly enforced and Iranian exports gradually recovered. In 2024 YTD, Iranian exports averaged more than 1.5 Mb/d. Virtually all Iranian crude oil finds its way to the "teapot" refineries in China. U.S. sanctions allow these refiners to negotiate steep discounts for their Iranian crude. The teapot refineries, which are non-state actors, have tried to insulate themselves from U.S. sanctions by concealing the origin of the crude they buy (rebranding it as oil from Oman or Malaysia), utilizing dark fleet tankers for the transportation and avoiding the U.S. financial systems when they pay for the crude oil. If a new Trump administration wants to reduce the flow of Iranian barrels to China, it might have to pressure the government in Beijing to clamp down on these practices. While this would be a problem for the teapots, they can buy from alternative sources (albeit at higher prices). The impact on Iran would be devastating, because they rely almost exclusively on China to market their crude.





Source: EIA, Vortexa

If the U.S. could dramatically reduce Iranian exports, this would give a boost to the tanker market, in particular VLCCs. A large proportion of the VLCCs in the dark fleet are used to transport Iranian crude (Venezuela's exports are small and Russia mostly utilizes Aframaxes and Suezmaxes. Iranian barrels would need to be replaced by non-sanction oil from other producers, which would create additional employment opportunities for the mainstream tanker fleet.

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