



POTEN TANKER OPINION



Canada Opens The Floodgates

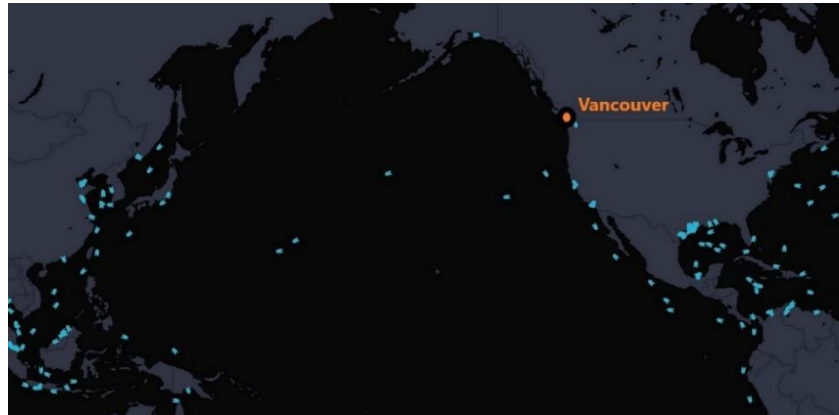
Trans Mountain Expansion will change Pacific Aframax market

The expansion of the Trans Mountain Pipeline (TMX) is almost complete. Trans Mountain has started to fill sections of the pipeline with oil and sometime in May, the first export cargo will be loaded. It is reportedly a shipment of heavy crude that is going to China. This is a massive project that took 12 years and an estimated \$34 billion to complete. It will almost triple the volume of crude oil that can be shipped from Alberta to the West Coast of Canada, from 300,000 barrels per day (b/d) to 890,000 b/d. Adding that much crude to the Pacific will dramatically change both the oil and the tanker markets in the region. In this Weekly Tanker Opinion, we will discuss both the opportunities and the challenges of this development.

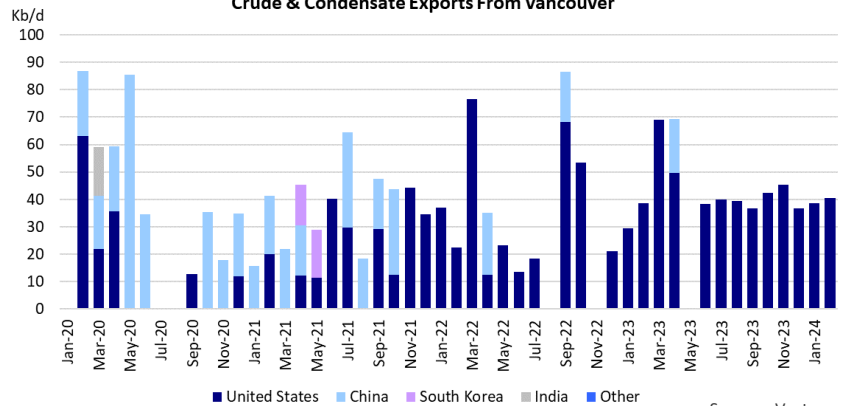
The ability to export an additional 580,000 b/d of crude oil will add a meaningful volume of crude to the Pacific Basin. Large potential markets for this crude will include China, Japan, Korea as well as the U.S. West Coast. In the Asian markets where oil demand is still growing, the Canadian barrels will compete with Russian and Middle Eastern crudes as well as U.S. Gulf exports. On the West Coast, Canadian producers will try to replace Alaskan crude as well as oil from the Middle East (Iraq and Saudi Arabia) and Latin America (Guyana, Brazil, Argentina, and Mexico). The U.S. West Coast, which imports about 1.4 Mb/d is a highly competitive market. It is not growing, which means TMX crude will need to replace other barrels. Alaska North Slope (ANS) crude, which currently makes up about a third of the supplies on the West Coast, seems to have a strong position in this market. Many West Coast refiners have been configured to run ANS crude for decades and the U.S. Flag crude tanker fleet which moves these barrels (as required under the Jones Act) is well integrated in the logistical system of the producers in Alaska, several of which operate their own tankers. It will be difficult to dislodge ANS crude from the West Coast in the short-to medium-term. The other crude producers delivering to the West Coast could be more at risk, especially since the short shipping distance from Vancouver gives the TMX crude competitive transportation costs.

Now that the TMX is almost finished, there is much speculation about how much of the TMX crude will go to Asia versus the U.S. West Coast. Some pundits expect a 50/50 split, while others assume up to 75% will end up in Asia. It is very difficult to predict how much crude will ultimately be exported and where it will end up because it depends on so many factors, including the pricing of the export barrels, the availability of suitable tonnage and the competitive response from other producers. In the short to medium term, growing oil sales out of Vancouver will reduce the volumes of Canadian crude that are exported via the U.S. Gulf. It is like playing three-dimensional chess.

Limited Aframax Availability On America's West Coast



Crude & Condensate Exports From Vancouver



Source: Vortexa

The export infrastructure in Vancouver is another complicating factor. Due to vessel size limitations, the Westridge Terminal can only be serviced by Aframaxes. Daylight only transits, air draft and tide concerns as well as strong currents present additional operational challenges. There are 10 shippers who are committed to the TMX under 20-year contracts. Combined, they cover 80% of the pipeline's capacity, leaving the remaining 20% available for spot shipments. The flows will gradually increase as shippers gain experience with the logistics and learn to navigate the operational challenges.

The limitation to Aframax sized tankers also creates commercial challenges for the TMX shippers. As can be seen on the map, the availability of Aframaxes on the West Coast of the Americas is currently very limited. A significant number of Aframaxes needs to reposition to this area as the exports ramp up. Currently, seaborne exports from Vancouver are only around 40,000 b/d, equivalent to two cargoes per month. At full capacity, the Westridge Terminal will need to service one Aframax per day (!). This is a dramatic increase, which will give a boost to global Aframax demand and support earnings for this vessel class.

Some shippers are addressing this challenge by taking Aframaxes on time-charter and committing them to this trade. However, we expect that in the future, as the volumes stabilize at higher levels, there will be a combination of spot and time-chartered tonnage servicing this trade. Some of these Aframaxes will shuttle back and forth to the U.S. West Coast, while others will make the trip to the Far East. To better facilitate long-haul exports to Asia, we also expect to see a pickup in reverse lightering to enable the use of VLCCs.