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POTEN TANKER OPINION

The U.S. Flexes Its Refining Muscle

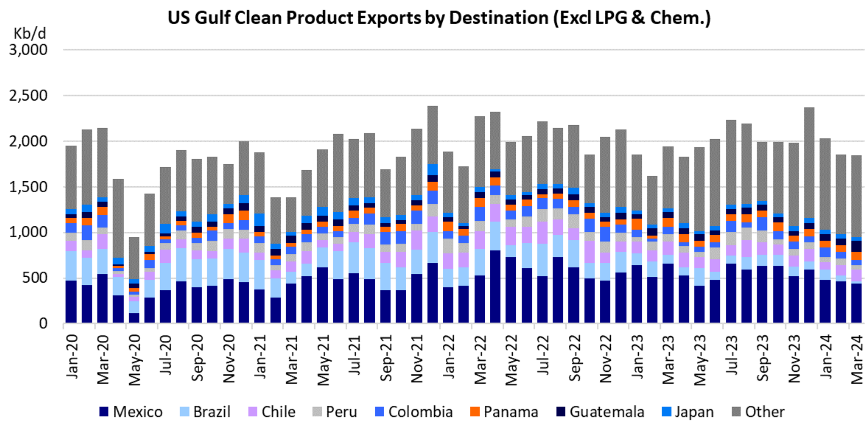
U.S. product exports are resilient among changing trade flows

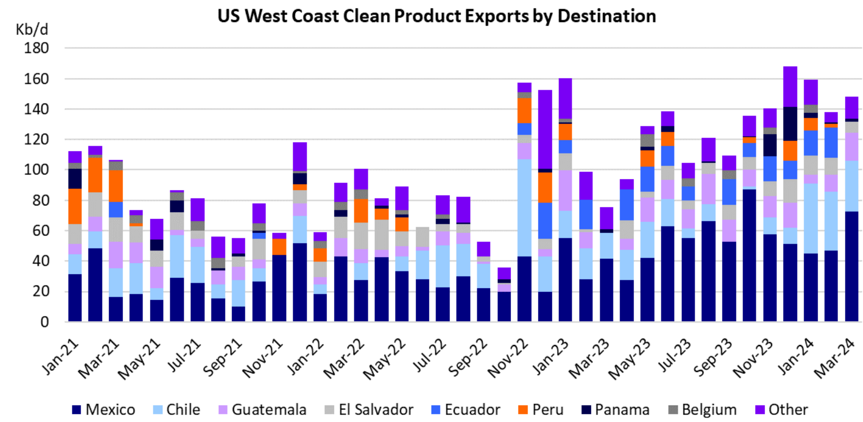
In our discussions about the U.S. oil industry, we frequently reference ever rising crude oil production and record crude oil exports. However, the United States also has a thriving refining industry. Earlier this week, the U.S. Energy Information Administration (EIA) published an analysis titled: "U.S. petroleum product exports set another record high in 2023." According to the EIA "Petroleum product exports from the United States averaged a record 6.1 million barrels per day (b/d) in 2023, a 2.5% increase from 2022." However, the growth in U.S. petroleum product exports is driven by a 14% increase in propane (LPG) exports, offsetting decreases in gasoline and distillate exports. So, the picture for the refined products that are moved on product tankers may look a little different. In this week's Tanker Opinion, we'll take a closer look at what is happening on that front.

A significant portion of U.S. product exports originate from the U.S. Gulf area, where a majority of U.S. refining capacity is located. In January 2024, the EIA estimates that the U.S. had 18.4 Mb/d of operable capacity, with 10 Mb/d (54%) of that located in PADD 3. The second largest refining area in the U.S. is PADD 2 (the Midwest), but these refineries are mostly landlocked and produce predominantly for the domestic market. Capacity in PADD 4 (Rocky Mountains) is small (650,000 b/d) and does not feature in the export markets. Refining capacity in PADD 1 (U.S. East Coast) has declined significantly over the last 20 years, from 1.7 Mb/d in 2004 to 952,000 b/d currently and product exports are generally limited.

Last, but not least, there is the U.S. West Coast (PADD 5). Although its capacity has also been trending lower, it remains the third largest refining area with 2.6 Mb/d of operable capacity. The U.S. West Coast is a meaningful exporter of refined products, but the product slate is much less diverse. PADD 5 exports are almost exclusively middle distillates (ULSD and gasoil) headed for Latin America. The Panama Canal restrictions that started last year have disrupted exports from the U.S. Gulf to the West Coast of Latin America, boosting PADD 5 exports from 87,000 b/d in 2022 to 123,000 b/d in 2023 and 140,000 in Q1 2024.

Diesel and gasoline are the largest export products by volume from the U.S. Gulf, representing 46% and 30% of the total (2.0 Mb/d). The share of Naphtha is 13% and Jet Fuel is 4% of the U.S. Gulf exports. Historically, the U.S. exports a lot of refined products to its neighbors in Latin America. However, the destinations and the relative importance of the individual countries have changed in recent years due to a combination of factors. Mexico has traditionally been the largest customer of the U.S., mostly buying gasoline. In 2021, Mexico imported 476,000 b/d of refined products from the U.S. Brazil, was the second largest importer with 263,000 b/d. Chile, Peru, and Colombia combined for another 313,000 b/d. All of Latin America combined represented almost 80% of total U.S. exports. Outside of Latin America, Asia (9%) and Europe (8%) were meaningful destinations in 2021.





Source: Vortexa

The war in Ukraine did change the distribution of U.S. Gulf exports as we can see when comparing 2021 with 2023. Brazil was the most notable. Exports to Brazil dropped from 263,000 b/d in 2021 to 119,000 b/d in 2023. In Q1 of 2024 volumes fell to below 70,000 b/d. The cause of this dramatic decline in U.S. exports to Brazil was the increase in Russian exports to the country. After the invasion of Ukraine, Europe stopped importing products from Russia. Russia needed alternative customers and Brazil was a willing buyer. The U.S. increased its exports to Europe from 143,000 b/d in 2021 to 248,000 b/d in 2023, an increase of 100,000 b/d. Exports to Mexico also increased in 2023, up 96,000 b/d from 2021. However, this proved to be temporary. In Q1 of 2024, Mexican imports have dropped to 460,000 b/d, which is below 2021 levels as Mexican refiners are pushing to increase runs. Further declines are likely as Pemex's new Dos Bocas refinery with a capacity of 340,000 b/d will start ramping up. This means that U.S. exports to Mexico will have to find new customers further afield, supporting ton-mile demand.

More product movements over longer distances have underpinned freight rates for product tankers in recent years. With limited deliveries of new tonnage in the near term, we expect that the market will remain strong.