POTEN & PARTNERS

November 10
2023

HOUSTON / NEW YORK / LONDON / ATHENS / SINGAPORE / GUANGZHOU / PERTH

POTEN TANKER OPINION

Not All Crude Is Created Equal

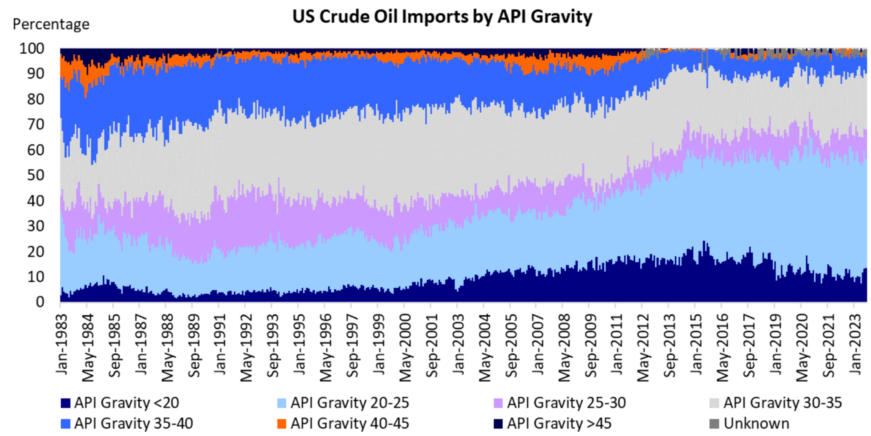
The U.S. is both a key importer and exporter of crude oil

It is hard to overestimate the importance of the United States in the tanker market. It is a large importer and exporter of both refined products and crude oil, and as a result it generates a lot of ton-mile demand for tankers. In this Week's Tanker Opinion, we will focus on the role of the U.S. in the global crude oil trades, and what the future may hold in the context of potential changes in supply patterns.

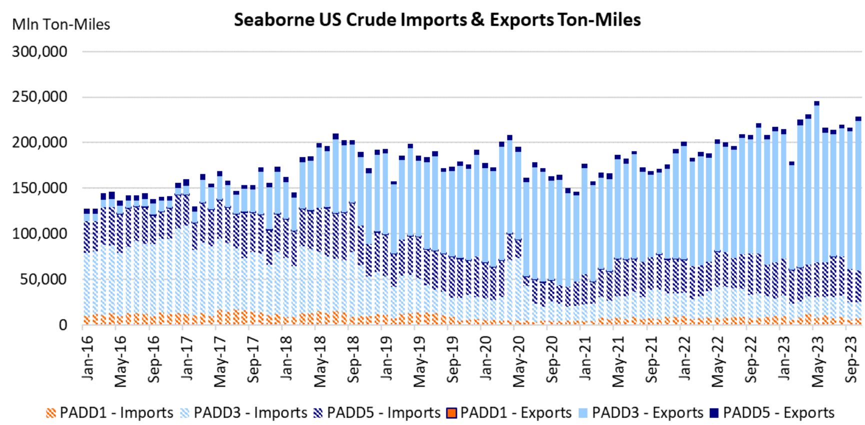
The United States was not a major crude oil importer until the early 1970s when a slowdown in domestic oil production coincided with fast growing demand. This resulted in a rapid increase in crude oil imports. In less than three years, from January 1970 until October 1973, U.S. imports increased by 164%, from 1.41 Mb/d to 3.74 Mb/d. The Arab oil embargo in 1973/1974 temporarily reversed the increase in imports, but from 1975 onwards imports accelerated again, topping out at 7.0 Mb/d until the Iranian revolution in 1979 triggered a significant price increase. This pushed the U.S. into a recession and crude oil imports fell precipitously. The bottom was reached in February 1985 at 2.1 Mb/d. After this, imports grew uninterrupted until the mid-2000's. U.S. crude oil imports reached an all-time high of 10.8 Mb/d in June 2005.

Not surprisingly, the peak in imports coincided with a low point in U.S. domestic oil production, which hovered at around 5 Mb/d during 2005-2008. This all changed in the early 2010's with the advent of fracking, which led to the rapid increase of tight oil production in the U.S. U.S. tight oil output went from less than 1 Mb/d in 2011 to 8.0 Mb/d by the end of 2019. The Covid-19 pandemic caused a temporary decline, but tight oil is back above 2019 levels, bringing total U.S. production above 13 Mb/d for the first time in August 2023. This was an all-time record.

So, with this dramatic increase in domestic production, it would be logical to expect that crude oil imports would decline by a similar order of magnitude. However, that did not happen. The imports did decline, but initially only by about 2.5 Mb/d. They dropped further in 2020/2021 as a result of the pandemic. However, imports have recovered in recent years and as of today, the U.S. continues to buy meaningful volumes of foreign crude oil and the reasons are two-fold. First of all, since the 1990s many U.S. refineries invested heavily in complex capacity, including coking, cracking and hydrocracking to enable them to process heavier (lower API gravity) and cheaper crude oils from regional suppliers such as Mexico, Venezuela, Colombia and Canada, as well as several Middle Eastern grades. When the shale boom happened in the U.S., refiners adjusted their slate to include more light domestic crude, but this was suboptimal and only made sense in the early years of the shale revolution when domestic crude prices were suppressed as a result of the crude oil export ban, which was instituted in 1973 as a result of the Arab oil embargo. Once the export ban was lifted by the end of 2015, the light/heavy differential expanded again, and U.S. crude became a desirable commodity in global market. Complex U.S. refiners continued to import heavier grades (Chart 1). These developments in the U.S. have boosted ton-mile demand and supported the tanker market. As can be seen in Chart 2, lower ton-miles from imports into the U.S. Gulf (PADD3) have been more than compensated for by a rapid increase in crude oil exports. In 2023, U.S.-related crude oil ton-miles have reached record levels.



Source: EIA



Source: Vortexa

The prospects for 2024 and beyond are somewhat uncertain, but generally bullish. The start of the Trans Mountain Expansion will reduce the availability of pipeline barrels in the U.S. and push more crude oil towards Asia on tankers. The (temporary?) lifting of sanctions against Venezuela will also benefit the market to the extent it increases the availability of heavy crudes in the Atlantic Basin. The Panama Canal drought will likely prevent most oil tankers from using this shortcut. However, 2024 is an election year (in Mexico, Venezuela, and the U.S.), and that is the source of the uncertainty. Who will win these races can have a big impact on the oil markets, which potentially will have implications for tankers as well.

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