Jones Act - Still the king of rates in 2016?

In today’s market Jones Act tankers command a significant premium as few ships are available in the face of overwhelming demand and tight supply. 34 MR’s and 42 coastal barges of 130,000bbls or larger represent the current US Jones Act Fleet. However, future supply may not be as tight as many orders have been hitting US shipyards. There are at least 10 medium range tankers on order, two large ATBs, and the possibility of an additional five to eight tankers to be built at Avondale. These orders will represent a sizable addition to the US flag tanker fleet over the next three to four years, which will help increase the liquidity in both the spot and relet markets.

A medium range tanker currently commands a rate of $75-$100,000 per day for a time charter. But the record high rates are not a guarantee beyond 2016 due to the possibility of over ordering. The port of Corpus Christi was exporting over 360,000 bls/day of US crude in August, but even a doubling of these exports would warrant the addition of only six to eight MRs to the Jones Act fleet. The current trend of cross US Gulf trade verses longer hauls to the US Atlantic coast or US west coast is keeping a cap on ton mile demand.

There is an outside possibility of additional capacity in the US Gulf from an unexpected source. Alaska North Slope crude moves via large Suezmax and Aframax tankers which historically have stuck to fixed routes in the region. But as Alaska North Slope production draws down, the question is being asked, how many ships are really needed for the trade? There are currently 11 ships in the Alaska to US west coast trades. Repositioning costs are significant but with a two year scarcity of tankers until 2016, owners would be able to recoup costs. The most logical time to reposition would be the expansion of the Panama Canal in mid-2015 which would allow for a much shorter voyage than via the cape.
The traditional concern of Jones Act owners over crude exports remains an unlikely scenario. US refiners are rabidly fighting any suggestion of export of US crude, as access to the cheaper grades has helped them run at elevated utilization rates for the past two years. These refineries provide many jobs in their congressional districts, a key factor in political support from elected officials. Jones Act waivers are unlikely for the same reason, as the cabotage protection maintains widespread support. No new waivers have been issued since 2012.

Jones Act tankers carry a high fixed cost, approximately $100-$130 mln versus $30-$40 mln for a similar MR built in a foreign yard. The fleet also faces substantially higher operating expenses due to the cost of employing US citizens.

On a positive note for tanker owners, the USG-USAC trade pattern for CPP could return following the increase in available tonnage. Many south eastern states in the US are not served by the Colonial pipeline, which supplies refined products to the Atlantic coast. At the present time only a handful of barges are seen on this route. These longer voyages would add substantially to the total ton mile demand for the domestic fleet.
The US Flag market will continue to see strong earnings through 2016, but participants should continue to watch the expanding fleet in the years ahead.