



## POTEN TANKER OPINION

## Lights Out

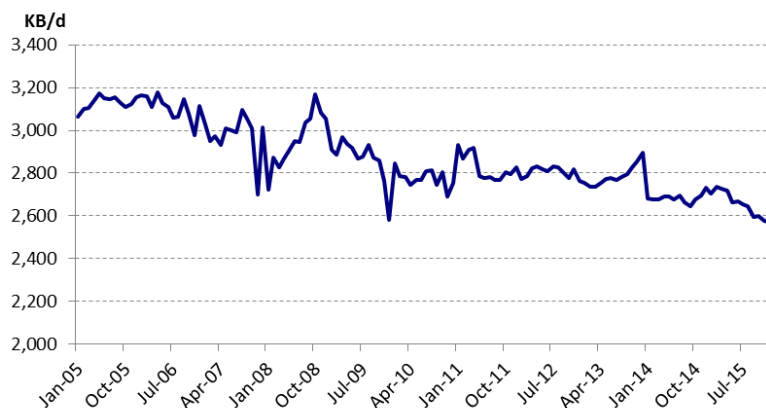
## Impact of Venezuela's problems on the tanker market

Venezuelans can't seem to catch a break. The country's economy, already reeling from the impact of low oil prices, has been dealt another blow by acute power shortages. Venezuela sources about 60% of its electricity from hydroelectric power and the El Nino weather phenomenon has caused severe drought. The water level behind the nation's largest hydroelectric facility, the Guri Dam in Bolivar State, has reached critically low levels. To save electricity, the President declared earlier this week that government workers will only work on Monday and Tuesday. Schools will also be closed on Fridays starting this week. The country is experiencing rolling blackouts, particularly in the smaller towns. Power shortages could further deteriorate Venezuela's oil industry, including oil production and refining. This in turn will have an impact on crude oil and refined product shipping markets.

Although Venezuela has the largest oil reserves in the world (BP's Statistical Review of World Energy), production has been steadily declining for years. In 2011, the country still produced 2.99 million barrels per day (Mb/d). After deducting domestic consumption, about 2.44 Mb/d was available for exports. The production forecast for 2016 is 2.6 Mb/d. Domestic consumption is also declining, but production is going down faster, reducing the availability for exports. To add insult to injury, the declines in oil price in recent years have increased the volume of oil that Venezuela has to send to China to repay its debts. Analysts estimate that Venezuela needs to repay China about \$7.0 Billion in 2016, which is supposed to be paid with daily oil deliveries. When oil prices were around \$100 per barrel, this represented about 228,000 b/d. China received much more than that and paid for the excess oil like any other client. With the average price of the Venezuelan mix closer to \$30 per barrel, it would have to send about 750,000 b/d to China, but that does not seem to be happening. In 2015, China received about 460,000 b/d from Venezuela. Because all of this was used for loan payments, Venezuela does not currently receive any cash for 20% of its exports.

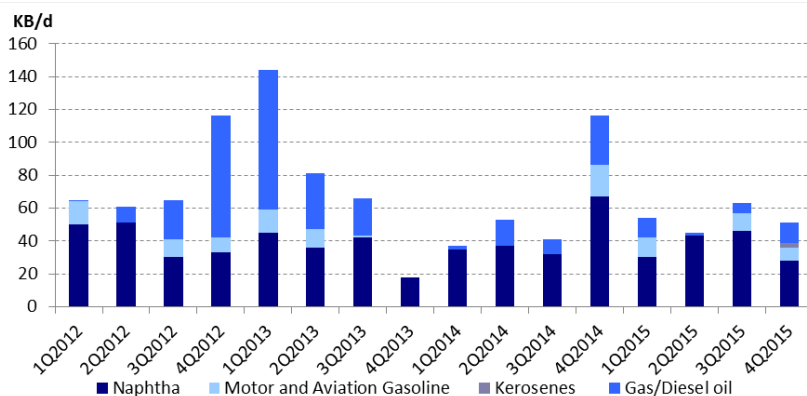
Total exports to China have remained relatively stable over the last 5 years, as have the volumes shipped to India. These trades are the mainstay of the VLCC trade from the Caribbean to Asia. Based on reported spot fixtures, Aframax and Suezmax loadings in Venezuela have also continued at a steady pace, with volumes moved on Aframax about double the volumes transported on Suezmax tankers. Across all vessel segments China, India and the U.S. remain the largest customers for Venezuela's crude, with smaller volumes going to Europe.

Fig. 1: Venezuela - Crude Oil Production



Source: JODI

Fig. 2: Venezuela - Petroleum Product Imports



Source: JODI

Power shortages, insufficient maintenance and lack of spare parts have also hampered refining operations in Venezuela. For example, the Amuay refinery, with a nameplate capacity of 645,000 b/d, the largest facility in the country, has been operating at less than 50% capacity. This has forced PDVSA to import increasing volumes of refined products. A surge in product imports, combined with the financial stresses facing Venezuela, predictably created problems when product tanker owners were not paid (on time) and decided to delay discharging their cargo. This is not the first time that Venezuela has struggled with refining output. A blast at Amuay in 2012 killed a number of people at the refinery and caused a significant reduction in output, which had to be compensated for by imports of refined petroleum products.

Overall, the developments in Venezuela, unfortunate as they may be for the country in general and the oil industry in particular, have had little impact so far on the tanker market. If anything, the disruptions in refining output have boosted product tanker demand. On the crude oil side, it is clear that China has a strategic interest in the country and will likely remain very supportive of Venezuela. As long as this support remains in place, it appears that Venezuela will remain an important source of both crude and product tanker demand.