POTEN & PARTNERS

April 8
2016

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POTEN TANKER OPINION

More From The Med (Maybe)

Recovery of Libyan production and exports not a sure thing

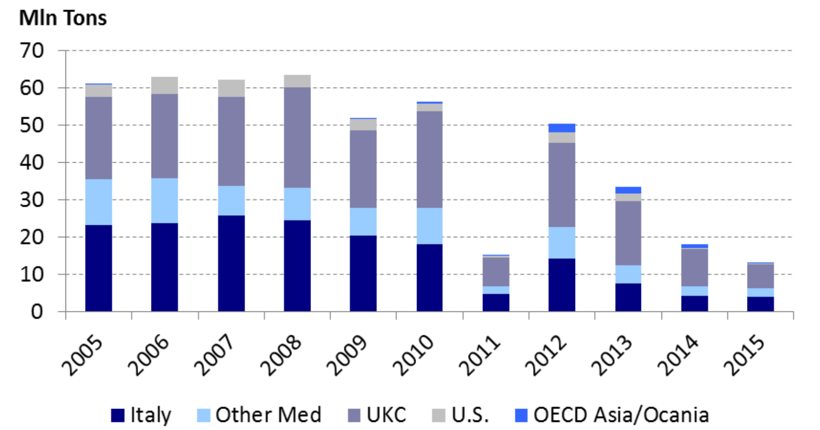
The Arab Spring movement, which started in Tunisia in December 2010 and quickly spread throughout North Africa and the Middle East, started to have an impact on Libya in February 2011 and by October of the same year, Muammar Gadaffi, the country's leader since 1969, was ousted and killed. Since then, the country continues to be marred by violence and instability. At an estimated 48 billion barrels, Libya has the largest proved crude oil reserves in Africa and the ninth-largest amount globally. Libya joined OPEC in 1962, one year after it started exporting oil. Oil production and exports have been extremely volatile since the civil war broke out in 2011, but there have been a few encouraging signs for tanker owners lately as a new Government of National Accord (GNA) may be able to increase the flow of oil, which has fallen from more than 1.6 million barrels per day (b/d) in early 2011 to average only 400,000 b/d recently.

Libya's oil production and exports has always been an important driver of Aframax (and to a lesser extent Suezmax) employment in the Mediterranean. As shown in Figure 1, Libya has traditionally exported most of its crude oil to European destinations. In 2014, for example, some 84% of Libyan crude ended up in Europe, mainly in Italy, Germany and France.

The United States, which was a significant importer of Libyan crude oil in the late 1970s and early 1980s, with volumes regularly exceeding 500,000 b/d, banned Libyan crude oil imports in March 1982, following the Gulf of Sidra incident. Sanctions on the country tightened further after the Libyan government was implicated in various acts of international terrorism, including the 1988 bombing of Pan Am flight 103 near Lockerbie, Scotland. Although the U.S. crude oil import ban was lifted in 2004, U.S. imports from Libya have remained small. With ample availability of domestic light sweet crude, we do not expect Libya to (re)gain significant market share in the U.S., even if domestic production and exports recover in the coming months and years.

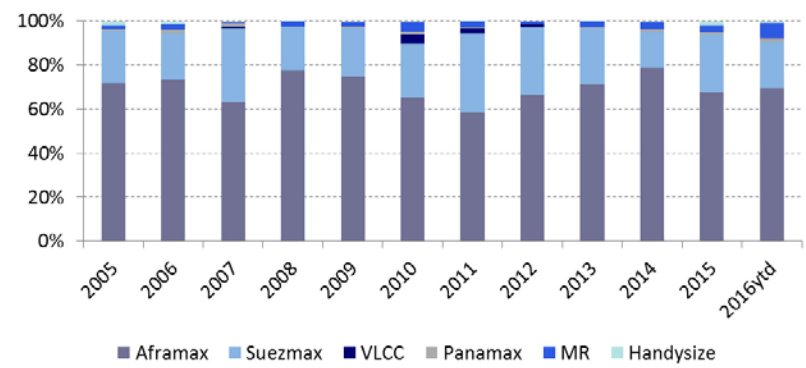
At this point it is uncertain what role China will be playing in Libya's future. Historically, China has had relatively few investments in Libya but imports of Libyan crude started to pick up in the years prior to the start of the civil war. Our fixture database shows that China received a total of 9 VLCC and 158 Suezmax cargoes from Libya in the last 10 years. This represents 100% of the reported VLCC fixtures loading in Libya and 27% of the Suezmax fixtures. No VLCC fixtures have been reported since 2012, but restarting this long-haul trade provides significant ton-mile potential for tankers. Another Asian destination for Libyan crude is India, representing 10% of Suezmax fixtures.

Fig. 1: Libyan crude exports to OECD countries



Source: IEA

Fig. 2: Market share of Libyan exports



Source: Poten & Partners

However, as Figure 2 clearly shows, Aframaxes continue to dominate Libyan crude oil exports. Over the last 10 years, Aframaxes transported some 70% of the crude out of the country. Poten has recorded more than 2,600 Aframax spot fixtures since 2005, with more than 80% of the vessels remaining in the Mediterranean. Italy is by far the most popular destination for Aframax movements ex-Libya.

Although an increase in oil production and exports is possible if a semblance of stability returns to the country with the new GNA, Libya continues to face enormous challenges with a severely damaged oil and transportation infrastructure in addition to a highly uncertain security situation with various regional army's and militias battling each other. On top of that Islamic State controls about 180 miles of coastline and continues to attack oil fields and infrastructure.

It is safe to assume that while the crude export situation is uncertain, Libya will continue to be an importer of oil products, since its domestic refineries are severely damaged and are operating at less than 20% of capacity. Similar to crude oil, Italy is also Libya's main source for refined products. In 2015, it supplied 80% of Libya's total annual imports of 2.1 Million Tons.