POTEN TANKER OPINION

Force Majeure In France

What are the implications for tanker demand?

After the oil industry suffered from a severe drought in Venezuela, forest fires in Canada and rebel attacks on oil installations in Nigeria, it is now facing the consequences of a national strike in France, where members of the trade union CGT have organized strikes at the country's refineries and blocked oil terminals and fuel depots. The situation seems to be worsening as more unions join the CGT and clashes break out between protestors and the police. Six out of France's eight refineries are either shut down or producing at significantly reduced levels (Fig. 1). It is estimated that 40% of the gas stations around Paris and about 20% of the stations nationwide have supply problems. Of the 12,000 gas stations in France, 820 were completely out of fuel last Sunday and another 800 lacked at least one type of fuel according to French transport secretary Alain Vidalies. The overall fuel supply situation has been exacerbated as consumers fill up their car(s) for fear that the country will run out of gas. What will the impact be on the tanker markets (crude and products) if the strikes continue?

At the moment, the impact on the tanker market is fairly limited, albeit growing. The CGT union has called for port workers to stop work at leading French ports and as the strikes continue, it will be increasingly difficult to supply the country with both crude oil and refined products by sea. One of the options that remains feasible is supplying France from the Netherlands and Belgium by barging fuel via the river Rhine to Strasbourg in the east of France. Within France, the government is drawing on strategic fuel reserves to supply gas stations. The last time the French government used its reserves was in 2010 following similar strikes at refineries.

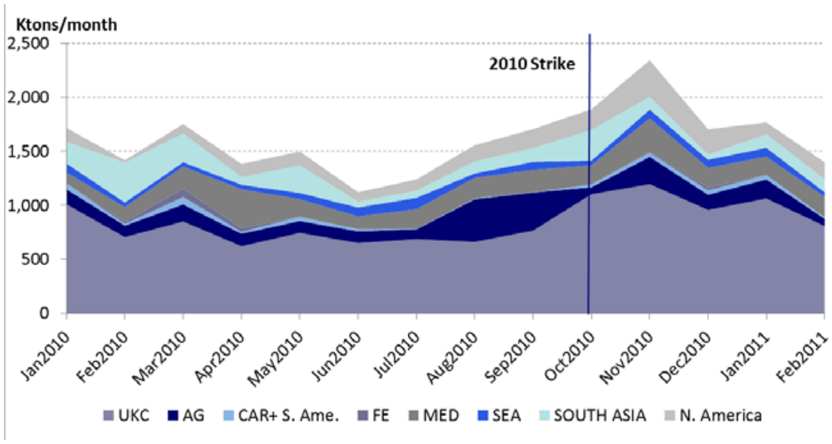
The situation for the tanker market should probably be divided between (a) what happens during the strikes and (b) what is the likely scenario after the strikes conclude. As long as the conflict continues, the impact on the tanker market will be limited with a slightly negative bias. At the moment, 75% of France's 1.4 million b/d of refining capacity is either offline or in the process of stopping. The remaining 25%, which comprises the two ExxonMobil facilities in Port Jerome Gravenchon (near Le Havre) and Fos-Sur-Mer, are operating 'normally', although strikers have attempted to blockade the oil terminal. The refineries that are 100% stopped will delay or cancel crude deliveries and it appears that a number of crude oil tankers heading for France have already been diverted to other destinations in Europe. Seaborne refined product imports and exports will also be on hold for as long as the ports are closed. In the first quarter of 2016, France imported on average 570,000 b/d of refined products, three-quarters of which was diesel. During the same period the country exported 257,000 b/d of clean products, mostly gasoline and naphtha. The main destinations were within Europe (approximately 55%), with smaller volumes (about 25%) going to North Africa and Nigeria. If the strikes continue for an extended period, these countries will need to source their product from elsewhere (most likely from other European sources). In the short-term, European countries in particular may decide to draw on (ample) inventories.

Fig. 1: France: Refinery Situation

Refinery	Region	Owner	Production Status	Impact
Gonfreville	Normandy	Total	100% Stopped	Blockade
Feyzin	Lyon	Total	100% Stopped	Blockade, Oil terminal Blockaded
Donges	St Nazaire (Atl Coast)	Total	Stopping 100%	Blockade
Grandpuits	SE of Paris	Total	Stopping 100%	Blockade
La Mede	Med	Total	Reduced Production	Blockade, Oil terminal Blockaded
Lavera	Med	INEOS	Reduced Production	Blockade, Oil terminal Blockaded
Port Jerome	Normandy	ExxonMobil	Normal	
Fos Sur Mer	Med	ExxonMobil	Normal	Blockade Dispersed, Oil Terminal Blockaded

Source: ICIS and other News Reports

Fig. 2: French Refined Product Imports 2010/2011 by Origin



Source: IEA

To determine what may happen after the refinery strikes end, it is instructive to review what transpired following the similar labor conflict in 2010 (Fig. 2). It is important to point out that France had more refining capacity at that time (1.7 million b/d in 2010 versus 1.4 mb/d currently) and consequently needed to import less product. After the strikes ended in October 2010, there was a 25% increase in refined product imports in the following month. It would not be a stretch to see the same happening this time around. If the conflict continues into next week and beyond, France will continue to draw on its strategic reserves. With millions of visitors heading to France as it hosts the European Soccer Championship in two weeks, every effort will be made to replenish the stocks of transportation fuels. Even if the labor conflict ends this weekend, it will take one to two weeks for the refiners to start back up, so it is likely that (similar to 2010) we will see increased product imports with Atlantic Basin product carriers (MR's mainly) as the main beneficiaries in the short term.