



## POTEN TANKER OPINION

## Tankers Br(exit) Strategy

## What (if anything) do we do now?

On a lazy summer day (in New York at least), the world woke up to the news that voters in the United Kingdom voted to leave the European Union after being a member since 1973. As most people worldwide expected the 'Remain' camp to prevail in the end, the Exit vote came as a shock and, as a result, currency, commodity and stock markets are in turmoil across the globe. In April, the IMF ranked the United Kingdom as the 5<sup>th</sup> largest economy in the world (after the USA, China, Japan and Germany) and, as an island and former global empire, shipping has traditionally been an important part of its economy. The question is: what is the potential impact of 'Brexit' on the international tanker markets?

The short answer is: nobody knows. One has to differentiate between the short-term economic and political impact as a result of the heightened uncertainty and the long-term implications that will only become clear when new trade agreements are being negotiated, which could take several years. Although the country's influence has been waning over the years, the United Kingdom remains an important player in the international shipping markets, ranging from insurance to banking and shipbroking. Some pundits have said that an exit from the EU will accelerate the decline of the British influence in these markets. One could argue that the writing was already on the wall. The Baltic Exchange is considering a sale to the Singapore Exchange and the shipping portfolio of the Royal Bank of Scotland (RBS) is for sale. Other British lenders (like Lloyds Bank) already started withdrawing from the industry years ago. As a result of 'Brexit' more leading international banks and financial institutions may decide to move out of the U.K. or establish their European headquarters in another location within the EU. This could also have a detrimental effect on all the related maritime services in the U.K. (accounting, maritime law, insurance). However, from a global maritime perspective, a shift of these services out of the U.K. to other countries will not be a material event.

One area where 'Brexit' could have an impact on the tanker market is the movement of oil products between the U.K. and EU countries. Figure 1 shows U.K. exports of petroleum products to EU countries over the last 10 years. A couple of things are clear. The exports from the UK to countries in the European Union are slowly trending down, primarily as a result of the decline in crude oil production and exports. In the first quarter of 2005, Great Britain exported 7.8 million tons of crude oil (equivalent to some 650,000 barrels per day) to other EU countries, representing 69% of total exports by volume. By the first quarter of 2016, crude oil exports were down to 5.1 million tons (422,000 barrels per day). Not only has the volume been reduced, the market share of crude oil

Fig. 1: UK Oil Exports to EU Countries

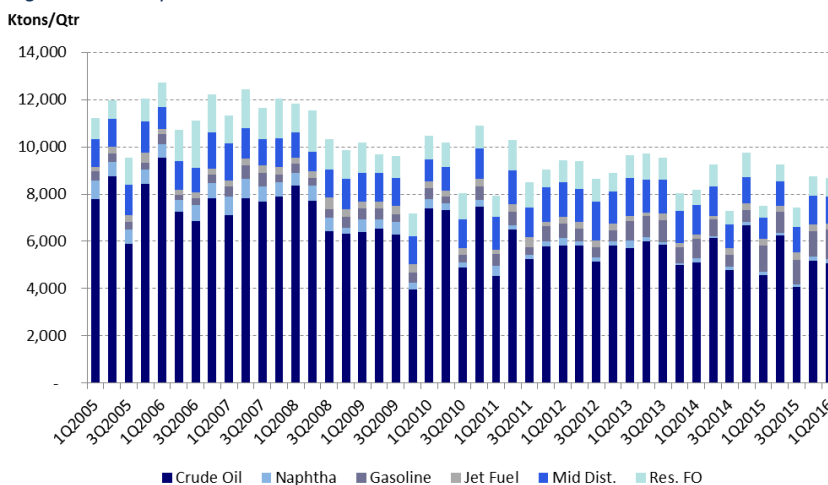
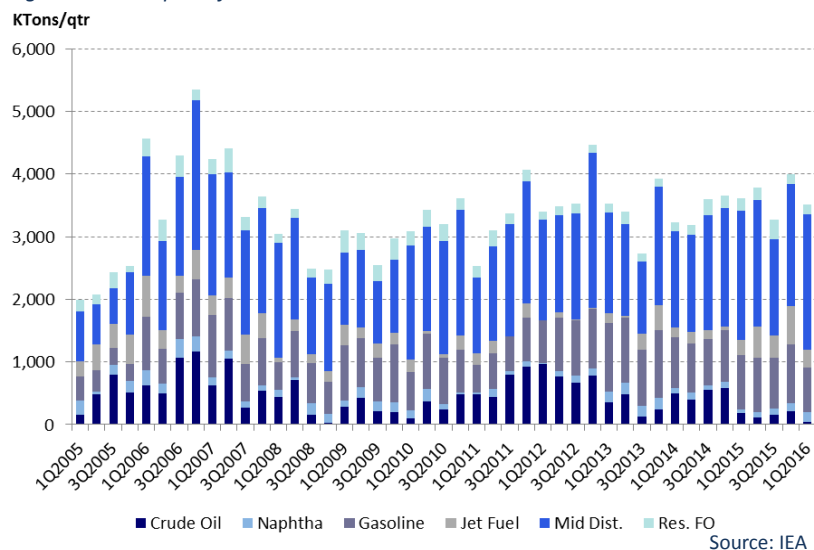


Fig. 2: UK Oil Imports from EU Countries



has also shrank to 58%. Clean petroleum products, in particular gasoline and diesel, have gradually become a larger portion of UK exports. Looking at the total picture and highlighting the importance of the EU as a trading partner, in 2015 the UK sent about 66% of its crude oil and petroleum product exports to countries in the EU, with only 34% going to other countries.

Looking at UK imports from the EU, the picture is different. Since the UK does not import material volumes of crude oil from other EU countries, it is products (in particular middle distillates) that dominate the import picture. In Q1 of 2016, the UK imported 2.2 million tons (190,000 barrels per day) of middle distillates from the EU. This represented 62% of total petroleum imports from the EU. In 2015, the EU supplied 46% of the oil products imported into the UK.

Given the short-haul nature of the UK – EU crude oil and product trades, any changes in trade-flows as a result of 'Brexit' could be positive for ton-mile demand, in particular for product carriers.