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POTEN TANKER OPINION



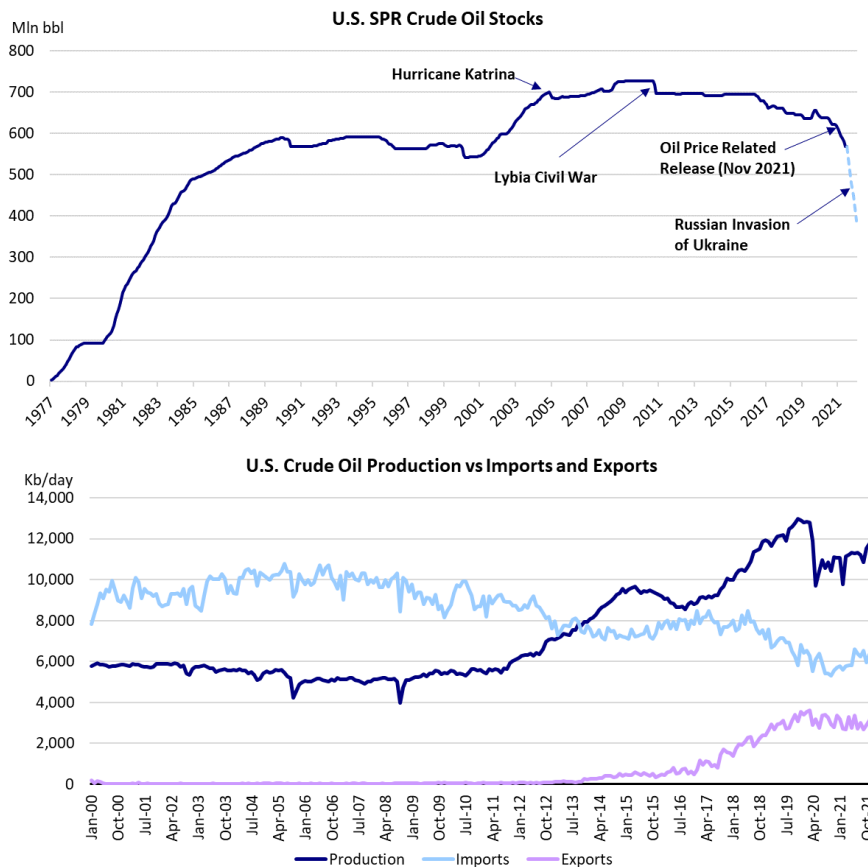
Biden Is Not Joking Around

The potential implications of an unprecedented SPR release

President Biden is determined to bring down oil and gasoline prices and yesterday he announced that the U.S. will release up to 180 million barrels of oil from the government's Strategic Petroleum Reserve (SPR) over the next six months, starting in May. The U.S. SPR is the world's largest emergency supply of crude oil. It was established in the mid-1970s in response to the 1973 oil crisis to mitigate supply disruptions. It has an authorized capacity of 714 million barrels and currently holds 568.3 million barrels in four storage sites on the U.S. Gulf coast. This giant SPR release of 1 million barrels per day for 180 days follows two previous drawdowns that were done recently: On November 23, 2021, 50 million barrels were released to "address the mismatch" between supply and demand during the pandemic and another 30 million barrels were released earlier in March 2022 to counter the impact of the Russian invasion of Ukraine on oil prices. In this Opinion, we will try to figure out how this SPR release may impact the tanker market.

For the purpose of this analysis, we will focus only on the U.S. SPR release. The White House has been talking to other countries about a coordinated approach and it is possible that even more barrels will be released into the market. Today, the member countries of the International Energy Agency (IEA) are holding an extraordinary meeting to discuss this further. One thing seems certain at this point: OPEC+ will not come to the rescue. They decided yesterday that they will "stay the course" and that there is no need to expand production much beyond the pre-agreed monthly increases of around 400,000 b/d. Next month they will add 436,000 b/d. While this is an (small) increase, it is worth remembering that several OPEC members have not been able to produce up to their quota in recent months, so it remains to be seen how much extra oil will reach the market.

When we consider the situation in the U.S., we have to think about several factors. At 11.4 million barrels per day (Mb/d), the U.S. is the world's largest crude oil producer. At the same time, it has almost 18 Mb/d of refining capacity, of which 16 Mb/d is currently utilized. This means that the U.S. remains a large importer of crude oil. In the third week of March, the U.S. imported on average 6.3 Mb/d of crude oil. During the same period, U.S. companies also exported almost 3 Mb/d of crude oil. Weekly imports and exports can be quite volatile, and in addition, inventories can expand and contract as well, so it is difficult to calculate the U.S. crude oil balances on a week-by-week basis. In this context, it is difficult to give a definitive answer to the question what will happen when the U.S. starts to release 1 Mb/d of crude oil from the SPR starting in May. Several different scenarios are possible.



Source: EIA

The most positive scenario for the tanker market would be if the additional barrels would end up in the export market. If a significant portion is exported to long-haul destinations in Asia, VLCCs would be the main beneficiary; if Europe takes more barrels, Suezmax and Aframax tanker would receive a boost. The worst scenario from a shipping perspective would be if the release of SPR barrels would lead to a significant reduction in seaborne imports, i.e. the SPR barrels would replace import volumes from the Middle East or South America. This would hurt VLCCs, Suezmaxes as well as Aframax. If the release of SPR barrels would lead to higher commercial stock levels, i.e. buyers would store the additional crude, that would also be a bad outcome for tanker owners. While this scenario is possible, it is not very likely given that the oil market is highly backwardated, discouraging inventory building.

Most likely, the result will be combination of the above scenarios. We will see some of the oil in the export markets, some will end up in inventories and some will be consumed by domestic refiners. Overall, one would think that adding one million barrels per day to global oil markets would likely benefit the tanker market. An additional boost could come further down the road, in 2023/2024, when the time comes to refill the depleted SPR. No one will dispute the need for an emergency supply and, if the full 180 million barrels are released, refilling it to the level of January 2021 will require 250 million barrels. If some of these barrels need to be imported, that would greatly benefit ton-mile demand.