Fortune tellers discuss U.S. crude exports- it's not 1975 anymore!

Contributed by

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How low can oil prices go? How high can tanker rates go? Can the present tanker boom last beyond Q1 2015? Lots of conversations and opinions- but no real answers yet. It's been a busy Holiday party season for me, full of oil and tanker chatter. Maybe all the invitations are a sign of the brighter shipping market- at least on the wet side. On Capital Link's tanker webinar earlier today, we heard TNP's Nicolas Tsakos, Chairman of Intertanko, suggest that the strong market might last for 2 to to 2-1/2 years. Paddy Rodgers of Euronav said "…the best is yet to come…" and pointed to an end of demand destruction for the oil business.

The potential export of oil from the United States has been topical, certainly in the second half of the year as oil prices have plunged, and the election has come and gone. With the realignment in Congress tilting towards the Republicans- it increasingly seems that some action will happen sooner rather than later (ie post January 2017 when a new Administration would be taking office). Last week, the House Subcommittee on Energy and Power held hearings on the Energy Policy & Conservation Act (or EPCA), of 1975, exploring the questions of whether the U.S. was positioned for success in what the Subcommittee called "An Era of Energy Abundance". The testimony included statements from four witnesses, followed by extensive Q &A from members of the Subcommittee- chaired by Republican Mr. Ed Whitfield from Kentucky.

Tanker markets, as such, were not mentioned explicitly during the hearings- the hearings were not about shipping, per se. But, of course, where past, present and future movements of crude oil and products are discussed, viewers with an interest in shipping are watching closely for any tea leaves. Fortune tellers and shipping prognosticators would be mainly disappointed, however there were a few interesting nuggets.

During the two and a half hour hearing, the Jones Act was mentioned a few times, and never in any detail. One witness, Lucian Pugliarisi- a well known Washington D.C. energy analyst, channeling a mention of the shipping rules by Congressman Joe Barton (R-Texas) at the outset of the hearings, noted "…maybe we need to look at some kinds of adjustments in the Jones Act…", along the lines of his mantra- don't make changes without looking holistically at their possible impacts. Pugliarisi, perhaps more so than his fellow witnesses, was quick to emphasize the unpredictability of markets, urging the policy-makers to craft robust rules that would allow markets to adapt to varied and unpredictable circumstances. Geopolitics loomed large- one Congressman opined that U.S. energy exports to Europe would be a welcome slap in the face to Mr. Putin in Russia.

As a side-bar, much speculation, linking the possible resumption of crude oil exports (banned since the time of EPCA's passage) with the demise of the presently robust Jones Act (a set of laws reserving intra-coastal maritime trade for vessels built in U.S. yards, crewed by and owned by U.S. interests) has been thrown about- though not at these hearings. This line of reasoning is built on the premise that coastwise movements of crude oil would disappear as all the domestic seaborne barrels are suddenly sent abroad.

What did emerge, from the comments of Mr. Pugliarisi, and from fellow witnesses Adam Sieminski (from the U.S. Energy Information Administration) and Dr. Charles Ebinger- an energy security expert at Brookings, is just how complicated the ebbs and flows of crude and products movements really are. Traders in the paper markets were valuing trans-Atlantic time charters for 2015 Q1 at over $20,000/day. The panelists alluded to U.S. refineries importing crude to keep utilization high- and then exporting products! One such example are the movements of surplus low sulfur diesel fuels (produced from heavy crude oils that feed the U.S. refining beast) to South America- a big commodity in the MR tanker markets, which have soared to historically high levels. In early December, modern product tankers in Atlantic trades were worth $44,000/day. Oh, in the ooops category, a leak in the Plantation pipeline (bringing products up to the Northeast) has further exacerbated tightness for MRs and small Aframaxes

Nearly overwhelmingly, the testimony of the experts supported elimination of the nearly 40 year old ban on crude oil exports. Dr. Ebinger, recounting a litany of failures when the Federal government became involved with energy markets, testified that: "…the folly of thinking that regulation and restrictions on vital global commodities makes any economic sense should be apparent. Please realize that this same misguided thinking on keeping crude oil exports restricted will one day be shown to have been wrong once the ban is lifted…"

Some of the better nuggets emerged during hearing came from Adam Sieminski, a one time energy analyst for a Bulge Bracket bank before he moved to Washington, DC. On gasoline exports, he explained that exports of gasoline (now in surplus with more efficient automobiles), a present market feature (and part of the MR story), may actually be helping keep overall product prices down- since refineries can run at high levels of utilization, producing products that are in demand- at more attractive prices.

The messy nature of markets described in the hearings reinforced my mantra- which not be confused with an investment thesis, which is that shifting trades are good for tanker markets. As this theory goes, there will be more tanker demand as longer haul trades become the norm, with actual demanded augmented by inefficiencies. Eventually- things must calm down, right? The answer is a "yes-but": given the rapid-fire pace of changes in the energy world and the geopolitical precipices that we seem to be tottering on, it's hard to envision energy stabilizing right away. Capital Link webinar participant Sven Moxnes Harfjeld said: "People need to source crude from WHEREVER they can get it." If things do settle down- meaning that trade routes solidify (this may include U.S. oil exports), and inefficiencies are reduced…well then supply and demand in the pure sense must fight it out- but even here, a lack of new ordering over the past three years will keep a lid on vessel supply for a while.