New trades for barrels and molecules

Contributed by

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Various permutations of energy exports continue to be news-worthy, with tanker watchers closely monitoring developments that could impact the nascent crude export trades, such as they are. While we leave the definitions of "condensate" and "processing" to the experts, it's clear that Canada is now a real destination for U.S. produced crude oil, balanced by a trade in products then coming back. Now, there could be even more U.S. crude going to Canada with the purchase, by a New York based team of one time oil traders, of a 115,000 barrel /day refinery known as North Atlantic Refining Ltd (NARL) at Come-By-Chance, Newfoundland. The seller is a Calgary-based subsidiary of the Korean National Oil Company (KNOC) which had acquired the refinery in 2009 along with a portfolio of oil assets in Western Canada. This refinery had an inauspicious beginning; it opened in December 1973- just as the long gas lines were forming as a Middle East oil was embargoed from the U.S. and Canada. During its forty year history, the facility's various owners have included Petro-Canada, and, more recently, Vitol.

The refinery has primarily served export markets, in its heyday in the 1980s' its main customers were gasoline convenience store chains in the Northeastern U.S. One affiliate of the stores had a brief flirtation with owning tankers . In this case, my money would be on history repeating. One executive from the new refinery buyers, a real estate investor dubbed Silver Range Financial Partners LLC, was quoted in the Canadian press saying: ""NARL is strategically located along Atlantic crude oil shipping routes and provides access to petroleum markets in Europe and the U.S. Eastern seaboard…" The buyers have also suggested that they have feedstock and off-taking agreements in place with "…a global oil firm…" The rumor mill suggested that the investment syndicate included oil giant BP- which could provide crude barrels and could export product that is surplus to the needs of a chain of gas stations in the Canadian Maritime provinces that will be supplied. Another data point is the listing on the attendee list for Marine Money 2014 (held in late June, in New York) of Mr. Harsh Rameshwar, a top Silver Range executive (who earned a degree in nautical studies, apparently, before joining Sempra, a leading energy trader). This sounds like a situation that will keep the phones ringing constantly for tanker brokers (and their ship-owning principals) once the new team takes over.

There is more to the story than U.S. crude exports. Commodity expert Simon Jacques, based in New Brunswick, has suggested that the new owners might use Come-By-Chance to "arb" high octane gasoline components from Europe (an ingredient in premium gasoline) with LR1 Clean tanker cargoes to blend it with lower-octane gasoline they are producing. The refinery is poised to take advantage of attractive price differentials (when they occur) for bringing in the high octane cargoes from Europe- he said that currently, low differentials favor such inbound moves to the U.S. Atlantic. Mr. Jacques also expressed a concern that specifications for Canadian-produced gasoline might differ from those for product sold in the States.

We live in a world of fickle supply chains, even beyond week to week "arbs". In the next few years, sourcing of light crude from the Eagle Ford region, moved up on tankers from Corpus Christi, would seem logical. Mr. Jacques mentioned that Exxon Mobil's huge Hebron fields, offshore Canada- 350 kilometers southeast of St. John's Newfoundland, would be pumping starting in 2017. Energy consultants RBN also point out that TransCanada, a large infrastructure player, is expected to be sending oil from Western Canada (as well as Bakken crude, from North Dakota) across to the Atlantic refineries by 2018 when its "Energy East" pipeline comes online in 2018, though not up to the far reaches of Newfoundland.

LNG transportation has also been in the news. This past week, Cameron LNG, a subsidiary of Sempra Energy (hey- follow the barrels and molecules!) said that it has received final authorization from the U.S. Department of Energy (DOE) to export domestically produced LNG from its proposed liquefaction facilities in Hackberry, La. (near Lake Charles), to countries that do not have a free-trade agreement (FTA) with the U.S. That's a big deal that will open up U.S. produced gas to a wide universe of buyers, since the FTA universe is rather small. The overall cost at Cameron, to be borne by Sempra and a group of Japanese partners if the project gets the final nod from its investors, has been pegged at around $10 billion. Besides Sempra's deal, two other projects- a big one at Sabine Pass (Cheniere) and a smaller one from Caribbean Energy, an offshoot of Crowley Maritime (that would see export LNG moved in containers to destinations mainly around the Caribbean) have also gotten the full "thumbs up" from the Feds.

With more than two dozen other LNG export projects are at various stages on the road to "yes", the politics are fierce. Chemical companies (spearheaded by Dow), who benefit from cheap feedstocks for ethylene and a host of other byproducts, are not in favor of export initiatives, worried that foreign demand might increase their cost structure. Dow and others have $billions allocated to the ethane processing chain. Conversely, producers of gas that might otherwise be flared off, and their elected representatives, are eager to see as many export outlets as possible.

And then we have the politicians. Two Congressmen from California, Duncan Hunter (Republican) and Jim Garamendi (Democrat) have launched the Growing American Shipping Act (the "GAS" act), HR 5270, (http://garamendi.house.gov/sites/garamendi.house.gov/files/documents/GrowingAmericanShippingAct.pdf) which is aimed on carving out a U.S. flagged portion of vessels in the LNG trades. The objective, it seems, is job creation, co-mingled with high concentrations of national security and port safety. A U.S. flagged vessel can be built abroad- unlike far more expensive Jones Act (intra-coastal) ships which must be U.S. built. Through the mechanisms of the U.S. Deepwater Ports Act (already codified in existing laws), the bill would seek to give priority processing of export applications for deepwater port terminals that would utilize U.S.-flag vessels. But the wars over terminals and flagging may be fought on the much bigger high stakes geo-political canvas. A U.S. House report from earlier this year said it in so many words- the economic benefits (of LNG exports) are huge, but the possible geo-political benefits of supplanting Russia and others as energy suppliers are even greater.