Will more US ‘mid-streamers’ join the tanker trades?

By Barry Parker from New York

Standard & Poors (S&P), the credit rating agency, recently issued a report “Why An End To The Oil Export Ban Will Give Many US Energy Companies A Credit Boost”. Though tanker shipping is mentioned only briefly, implications abound throughout S&P’s paper, which benefits from inputs of Bentek Energy, S&P’s sister company under the McGraw Hill umbrella.

Exports of US crude oil, banned since the 1970s, have been advocated, not surprisingly, by producers of oil, particularly the sweet crudes that come out of shale formations in Eagle Ford, Texas. This week, Shell’s ceo Ben van Beurden, speaking at Columbia University in New York, suggested that exports of US oil would exert a stabilising effect on world oil prices. On the other hand, refiners, who have benefited from abundant supplies of domestic crude oil, have tended to oppose exports. Meantime, other analysts have prophesied that increased production of sweet crudes could overwhelm US refineries, many of which were built to process heavier oils, leading to severe pricing discounts for oil produced from shale.

Oil pricing dynamics could create new tanker trades, even in the absence of regulatory changes open up export markets for US crude. Consultant Turner, Mason & Co. says: “If US crude production continues to increase, and exports are restricted, price disparities will spring up as the US refining segment reaches saturation.” The consultant suggests the possibility of a new tanker trade to support exchanges of light oil with Canada, a destination where US exports are currently permitted.

Turner Mason points to the ongoing reversal of Enbridge’s “Line 9”, a crude oil pipeline that had been had been transporting imported crude oil to Sarnia, Ontario from Montreal. With the reversal, the line will now be a major link in supply chains of Western Canadian crude that could move eastward. This increased availability of Canadian heavy in Montreal could support new supply chains for deepsea tankers. They suggest: “Using Montreal as a hub, an exchange of heavy for light could take place, with ships sailing to the Gulf Coast with heavy oil sands crude and returning with light, sweet crudes. This could be done with the cheaper, foreign-flagged vessels, and help circumvent the pipeline delays or costly crude-by-rail.”

With the growth of US oil production, the “mid-streamers” (operators of pipelines and arrangers of rail transportation / storage/ terminals) have been in the ascendancy. Many have benefited from tax rules that allowed them to organise as Master Limited Partnerships (MLPs). For the most part, they have stayed away from waterborne transportation.

An exception has been Kinder, Morgan & Co. a leading logistics provider to the U.S. energy industry, which bought Jones Act owner American Petroleum Tankers (APT) earlier in the year from the Blackstone Group. APT operates five vessels and has five more on order/ under construction at Nassco in San Diego. Its exceptionalism translates to its corporate structure; last month, Kinder Morgan announced that it would eliminate its MLPs and transform itself to a corporate structure.

The S&P report’s mention of the tanker market is brief: “The international tanker market could see much more investment as crude flows to overseas markets - likely at the expense of US-flagged vessels, which can only move crude oil between US ports under the Jones Act. This could result in lower cash flows for Kinder Morgan's Jones Act marine transportation assets than previously expected.”

Kinder Morgan is known to be a leader but left unspoken in the S&P report is the possibility that followers, such as other pipeline companies, may look at tanker assets as they recognise the importance of marine transportation in energy supply chains. Implicitly, stronger credit among US “mid-streamers” may set the stage for S&P of a different type.

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