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US oil supply programmes - unsolved equations and new tanker trades

By Barry Parker from New York

Oil exports from the US were back in focus, as it was revealed that a cargo of Alaskan North Slope (ANS) oil was on the water bound for South Korea, aboard the US flag tanker Polar Discovery,owned by Conoco Phillips, 141,000 dwt built 2003 at Avondale.

The vessel has been serving mainly West Coast refineries, hauling oil loaded at Valdez. Exports of US produced crude oil have been largely limited to Canada, but one exemption to 1970's era export bans allows ANS exports to Asian destinations provided that they move on tankers built in the US and operated under the US flag.

Previously, Alaskan oil, transported to Valdez by pipeline, had been exported to South Korea in the mid 2000's. According to a number of prominent analysts, notably Citibank's Ed Morse, this cargo is part of a bigger wave that will lift US exports to 1m barrels per day (bpd) over the next year. July 2014's exports of approximately 400,000 barrels (mostly to Canada) was approaching a record level, dating back to 1957 according to analysts at Bloomberg.

This Polar Discovery voyage- first reported by information provider Genscape, represents the nexus of several important trends. Alaska's production has been shrinking; US Department of Energy data shows the state's annual production peaking in 1988 at 2m bpd. By 2013, the figure had been cut by 75%, to around 500,000 bpd. Tanker-watchers had been questioning how, exactly, U.S. built tankers for the Alaska trade might be deployed- with some suggesting alternative uses hauling domestically produced oil in coastwise moves from Texas and Louisiana up to the Northeast.

Up until very recently, and spreads of foreign oil above domestic grades narrowed, the US was significantly reducing imports, as US production in the Lower 48 has soared by nearly 3m bpd, a beneficiary of the "shale revolution". As spreads have narrowed in 2014, imports of crude oil have become more attractive into the US, highlighting a concern raised by another group of energy analysts, who expressed concerns about a glut, with low prices, of "light sweet" oil (produced domestically at Bakken and Eagle Ford fields) not perfectly suitable for US refineries, in coming years.

Consultants RBN Energy, experts on such matters, suggest that pricing disparities - from contracted spreads- where imported barrels are more attractive than ANS oil on the U.S. West Coast - are behind the Polar Discovery cargo with the displaced barrels moving to South Korea.

Oil producers have been lobbying hard for repeal of the 1970's export bans, to keep prices higher. The estimates of the glut, approaching 1m bpd several years out, are sized comparably with estimates of the "export Armada" now prophesied by Ed Morse, and others. Problem solved? Maybe- at least temporarily- until spreads expand again. Another part of these simultaneous equations- without a definitive answer, is the investment in new oil processing infrastructure that would yield more value from the abundant new "shale" barrels to US refineries.

As petroleum supply programs built on cargo trading re-align, tanker trades must also consider that Canada is now gearing up for waterborne exports of oil produced in its western provinces. Besides European destinations, at least some of this oil is finding its way to US refineries by tanker.

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Barry Parker comment- so, after I wrote this article, Bloomberg had a podcast (I would say in first week of November) where their two analysts raised an interesting question- what if the "condensate" and "light crude fractions" are not suitable for S. Korean refineries? I have no answer for this, but it's a very legitimate question.

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