

## **Only constant is change**

Notwithstanding the fact that the first half of 2003 was an exceptional time, the six-month period highlights the extent to which the product tanker trades are at the mercy of "outside events".

On the downside, the SARS virus and the Iraq conflict encouraged people to stay at home and the demand for aviation fuel plummeted. On the other side of the coin, there was an oil workers strike in Venezuela, a temporary shutdown of nuclear plants in Japan for safety reasons, record low oil inventory levels, colder than usual weather in Europe and northeastern US, a higher than average use of motor vehicles during the summer driving season, the sinking of Prestige and a period of sustained, very high natural gas prices in the US.

The combined effect of all these unexpected developments was, for shipowners, a pleasing surge in demand for tonnage and freight rates. Such an upturn had not been anticipated, far from it, but product tanker owners rode the swell as long as it lasted, knowing that the pattern would slowly revert to the underlying trend of weak demand as a result of a stagnating global economy and the need to assimilate a large number of new ships currently under construction.

One of the most important benefits for tanker owners serving the Atlantic Basin was the Venezuelan oil strike, as it required the delivery of refined products to the US over longer than normal distances. Also, the cold winter prompted the need for more fuel, while the high US gas prices prompted many power plants to switch to gasoil and naphtha as feedstocks.

### **China drives Asia**

While the Atlantic Basin trades enjoyed a rebound in the first half of the year, the strengthening of the product tanker market east of Suez was even greater, spurred by dramatically increased levels of both imports and exports in China and higher than normal Japanese purchases of gasoil and naphtha as a result of the problems with Tokyo Electric's nuclear power plants.

The rapidly expanding Chinese economy continues to drive the demand for oil. Chinese imports of residual fuel oil hit record levels this past May, June and July as the oil-fired power stations in the southern and southeastern parts of the country attempted to keep up with the brisk pace of industrial activity and the requirements of air-conditioning systems in the many new office buildings being opened for business. Despite the recent frenzied activity, the Asian product trades are likely to develop in a relatively calm, stable way over the longer term. Many new Asian refineries have been commissioned over the last five years and all the major nations in the region are substantial traders of refined products. China and Japan remain net importing countries, while Korea and Taiwan are net exporters, and the region as a whole is a net importer.

Overall, Asian seaborne imports of clean petroleum products (cpp) are expected to increase slightly by 2005, while imports of dirty petroleum products (dpp) are forecast to fall marginally over the same period.

### **US drives alone**

While US imports of refined oil products have remained relatively stable for the best part of two decades, they nevertheless stand at a respectable 2.6 million barrels per day (bpd). Some 15 per cent of this volume comes overland from Canada via pipeline; the remainder is comprised of seaborne imports.

Growth in US oil imports has stemmed from the crude oil sector, with incoming shipments of crude now standing at approximately 9.2m bpd. However, because the US is unlikely to build any new domestic refineries in future due to the difficulty in

securing planning permission, the volume of crude oil that can be imported into the country is approaching its limit.

The expected continued growth in oil imports will have to be met by refined products. Although US cnp imports are not due to begin accelerating until later this decade, when the growth phase starts, it will be a strong expansion when it does take hold. Industry analysts predict that the US will be importing 7m b/d of cnp in 2025, in contrast to the current level of 1.6m b/d. Shipments of middle distillates and gasoline to the US are expected to show the strongest growth amongst the clean product imports.

US dnp imports, primarily fuel oil, are also set for expansion, although the growth pattern will evolve differently. Dnp shipments are expected to commence climbing within the next few years, continue expanding until midway through the next decade and then level off. US dnp imports are forecast to settle at around the 3.7m b/d mark in 2025, well up on the current level of 1m b/d.

### **Longer journeys**

Not only will the US be importing more petroleum products in the years ahead, it will be receiving these cargoes from relatively further afield. Middle East oil producers, for example, are anxious to add value to their oil resources by building cost-efficient, worldscale refineries capable of producing products to the high specifications required for consumption in developed countries with strict environmental controls. While net dnp exports from the Middle East are expected to fall by one-third over the next five years, to 400,000 b/d, Middle East net cnp exports are set to double, from the current level of 1.45m b/d to 2.8m b/d in 2008.

These developments, particularly increasing US product imports from sources relatively farther away than existing export refineries, bode well for the product tanker fleet. Extra tonne-miles mean additional shipping capacity and the longer distances will prompt owners to investigate the economy of scale efficiencies of moving larger parcels in bigger ships.