



POTEN TANKER OPINION



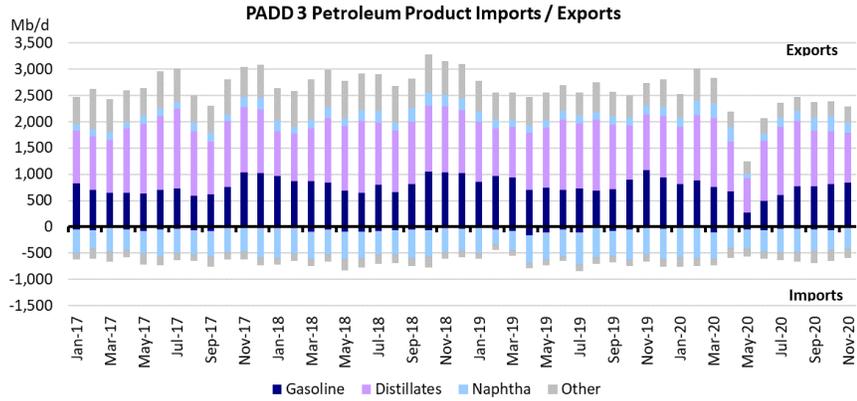
Texas in Turmoil

What are the implications of the ice storm for U.S. energy?

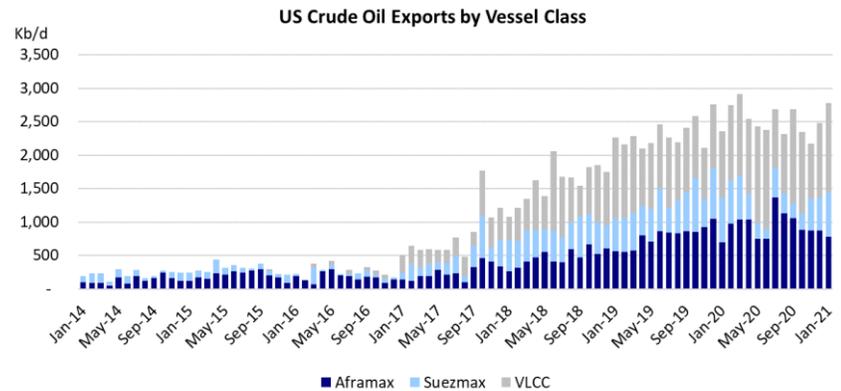
Extreme winter weather in Texas has disrupted energy supply and demand in the Lone Star State. All over Texas, millions of people lost power and it could take several weeks for energy systems to resume normal operations. Many news organizations have reported extensively on what caused these problems and how they could be addressed. That is not the topic of this Weekly Opinion. We will try to determine if there are any long-term implications for U.S. energy balances. Crude oil as well as refined product imports and exports were already subject to significant changes as a result of the Covid-19 Pandemic as well as the change in government in the U.S.

The Covid-19 pandemic caused a dramatic drop in energy demand and created significant volatility in energy prices. Many U.S. energy companies posted record losses in 2020 and most of them reduced their CAPEX for 2021. The Short Term Energy Outlook (STEO) of the Energy Information Administration (EIA) came out just before the winter storm wreaked havoc on the energy industry in Texas. In the STEO, the EIA expected U.S. crude oil production to decline slightly in the first half of 2021 to a low of 10.9 million barrels per day (Mb/d) in June 2021. The EIA estimated that “U.S. crude oil production will average 11.0 million b/d in 2021—down from 11.3 million b/d in 2020 and 12.2 million b/d in 2019—and will rise to 11.5 million b/d in 2022.” It is likely that the Texas winter storm will lead to a significant reduction in production in February of 2021. Some 4 Mb/d of production (representing 36% of total U.S. crude oil output) was knocked off as a result of the Arctic blast and some of the largest producers in Texas declared force majeure as they had to reduce deliveries of oil. It may take up to a week to bring production back online, depending how quickly the weather improves and how much damage the wells sustained. As production was cut back, crude oil exports were also curtailed. Many ports in Texas, including Houston, Galveston, Texas City, Port Arthur, Beaumont and Corpus Christi were closed for several days because of freezing weather in the area. Both crude oil and product tankers have been waiting offshore until the ports reopen.

More than 20 refineries in Texas, Oklahoma and Louisiana were shut down during the deep freeze, cutting refining output by as much as 5.5 Mb/d. The U.S. is a major exporter of refined product and this trade has temporarily stopped. It could take weeks for some of the refineries to come back on stream and resume production (and exports). Instead of exporting fuels, the U.S. is now raising its imports of refined products. Charterers rushed to fix MR product tankers with gasoline and diesel from Europe to fill the shortfall. The Time Charter Equivalent (TCE) earnings on the benchmark UKC – USAC route



Source: EIA



Source: Lloyds List Intelligence

more than doubled from \$5,000/day in the week ending February 12 to \$12,500/day as of today. Until U.S. product exports resume, key importers of U.S. products will have to look elsewhere. For Latin American countries such as Mexico, Brazil, Panama, Peru, Guatemala, and Ecuador, this means longer haul imports from Europe, the Middle East or Asia. This will temporarily boost ton-mile demand and support product tanker rates.

Over the longer term, we will likely see more changes in the U.S. energy mix. While oil production and refining will recover from the icy weather, it will continue to face headwinds from the new Biden administration, which has a strong focus on renewable energy and opposes the development and production of more fossil fuels. The heated debates as to who is to blame for the mess in Texas clearly showed the two opposing viewpoints.

However, one thing is clear: Extreme weather events that impact energy production always create dislocations and, more often than not, the shipping industry comes to the rescue to balance supply and demand. As oil wells, pipelines and refineries freeze, product tankers lend a helping hand.

Unfortunate events like these demonstrate the flexibility and importance of seaborne trade.