Venezuelan Clean Product Taper

PDVSA faces a challenging financial situation.

Following the death of Hugo Chavez in March of 2013, Nicolas Maduro took over as interim president of Venezuela. Maduro, Chavez's hand-picked successor, narrowly won a general election several weeks later, with a hair thin 1.5% margin. Since then, Venezuela has experienced a period of hyper-inflation, military take overs of retail shops and widespread consumer goods shortages. This week, he was granted emergency decree powers, giving him dictatorial control over wide segments of the country and economy. The effects of state mismanagement have affected the state run oil company, PDVSA as well. The company has experienced an increasing number of production related issues, declining investment in refining projects and numerous refinery fires and outages. PDVSA sold a $4.5 billion dollar bond issuance last week, but will not be using any of the money to expand oil production capacity, but rather to service debt and provide hard currency for day-to-day operations.

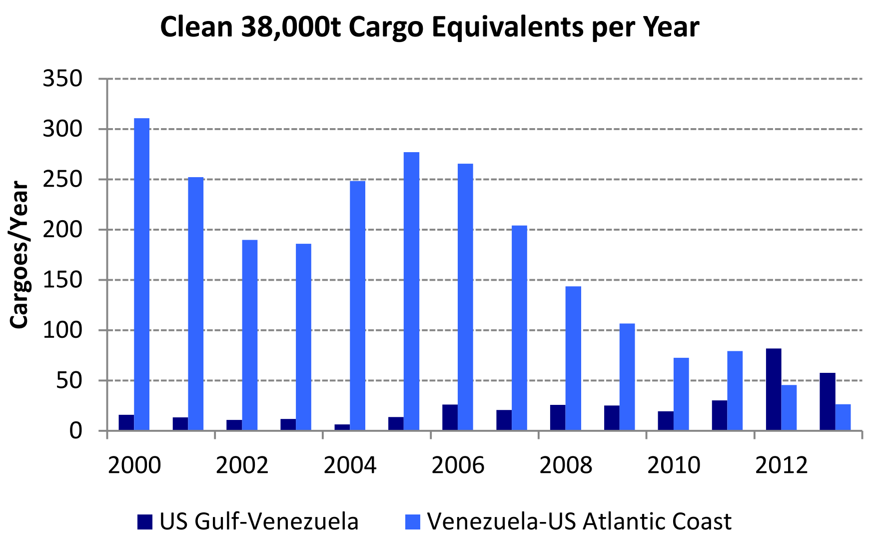
Venezuela has a total nameplate refining capacity of approximately 1.3 million bbls/d, with 900,000 bbls/d of crude processed in the first half of 2013. During the same six month period, there was a domestic demand for clean products of 750,000 bbls/d, leaving approximately 150-175,000 bbls/d for exports. Despite numerous refinery expansion plans, the IEA forecasts that a mere 60,000 bbls/d of capacity will be added through 2018, while demand is forecast to rise to over 800,000 bbls/d after 2016. The narrowing gap between product supply and demand will remove even more export potential, to levels as low as 100,000 bbls/d.

Venezuelan clean exports declining, while imports are rising.

Source: EIA

Clean Venezuelan exports rose to six cargo equivalents per month in August.

Clean product exports to the US have recovered slightly in the past several months, rising from a trough of less than two 38,000 mt cargo equivalents in February 2013, up to six cargo equivalents in August. However, this is nowhere near the levels reported between 2000 and 2007 when an average of 22 cargo equivalents per month were discharging in the US. The average number of cargoes out of Venezuela to the US from 2007-present is a modest 8 cargo equivalents per month. A large portion of Venezuela's clean product exports are to the US and this decline indicates a substantial overall reduction in clean product exports. The EIA data below highlights the trend since 2000.



Source: EIA

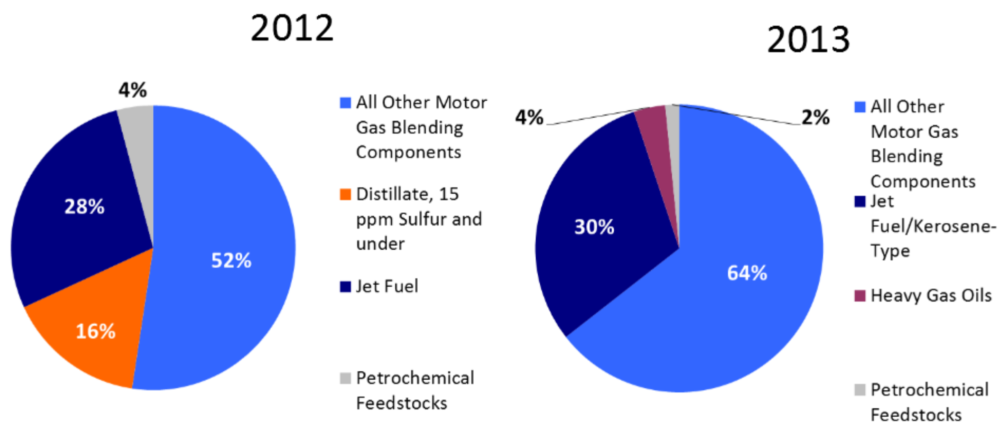
Imports from the US have outpaced Venezuelan exports in the last two years.

Starting in 2012, the balance of imports versus exports changed. More clean cargoes have loaded out of the US bound for Venezuela, a trend that peaked at 15 cargoes in September 2012, following the Amuay refinery explosion. Although levels have dropped below that peak level, US exports to Venezuela are expected to remain close to the current level of four to five cargoes per month seen in the market today.

Jet cargoes drive the spot market.

A major change in US imports from Venezuela is the absence of distillate in 2013, as can be seen in the chart on the next page. US refiners have been adding hydrocracking capability to maximize distillate production, which is reflected in the rising levels of diesel exports from the US, bound for Europe and Latin America, and have reduced the demand for imports to zero. Most of the cargoes heading to the US are gasoline blending components, which appear to be moving as contract cargoes. Most of the reported spot market export activity is jet fuel bound for the US Atlantic Coast.

US Imports from Venezuela



Source: EIA

The share of products the US is importing from Venezuela is changing as well.

The Petrocaribe program is being scaled back.

PDVSA is in the process of dismantling its Petrocaribe program, through which it offers crude oil and distilled products to Caribbean countries at a discount. Although the lion's share of the program was for crude exports, 37,000 bbls/d of clean products were exported as well, or approximately a 38,000 mt cargo every ten days. Some of this product will remain in the export market, and may have destinations outside of the Caribbean, which would contribute to ton mile demand in the MR segment.

PDVSA faces a challenging financial situation as declining clean product exports are contributing to the revenue crunch. The decline of the Petrocaribe subsidy program is a step in the right direction, but the larger drain on the company's finances are the domestic social programs and funds for other government operations. Until some capital is reinvested in infrastructure, the potential for another Amuay type disaster remains, and clean exports will remain lower than they could be, keeping downward pressure on the benchmark Caribbean to US Atlantic coast benchmark.

Poten Tanker Market Opinions are published by the Commodity Consulting & Analytics department at Poten & Partners. For feedback on this opinion or to receive this via email every week please send an email to tankerresearch@poten.com. For information on the services and research products offered by our Marine Projects & Consulting department or to contact our tanker brokers please visit our website at www.poten.com.