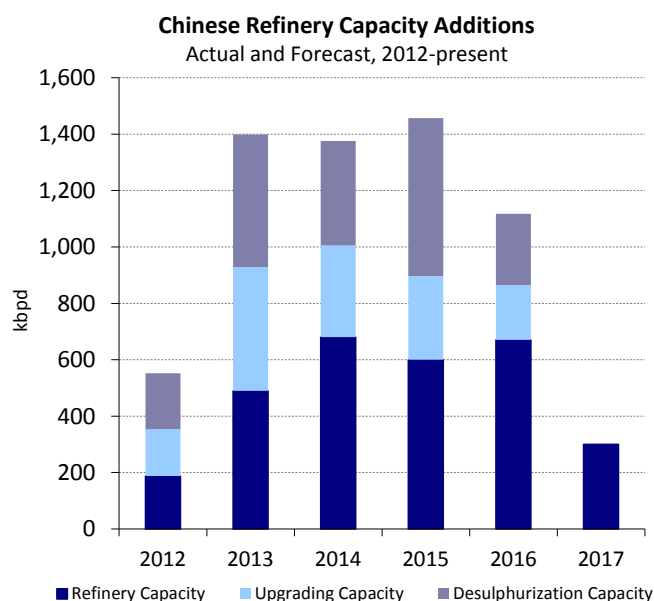


China-Russia Crude Oil Deal Largely Bypassing Tanker Market

China securing more Russian crude oil as part of broader agreement...

Although most media reports were previously suggesting that major Sino-Russian energy negotiations were faltering, relations between the pair took a high-profile positive step last week as it was announced that OAO Rosneft will double its crude oil exports bound for China to over 620 kbpd while China National Petroleum Corporation will become a partner of Rosneft's in upstream Arctic projects. The two countries also indicated that they plan to announce additional pipeline capacity between them later this year. This development is significant as China attempts to secure crude oil for the substantial amount of refinery capacity that is estimated to be brought online in the country in the near term.

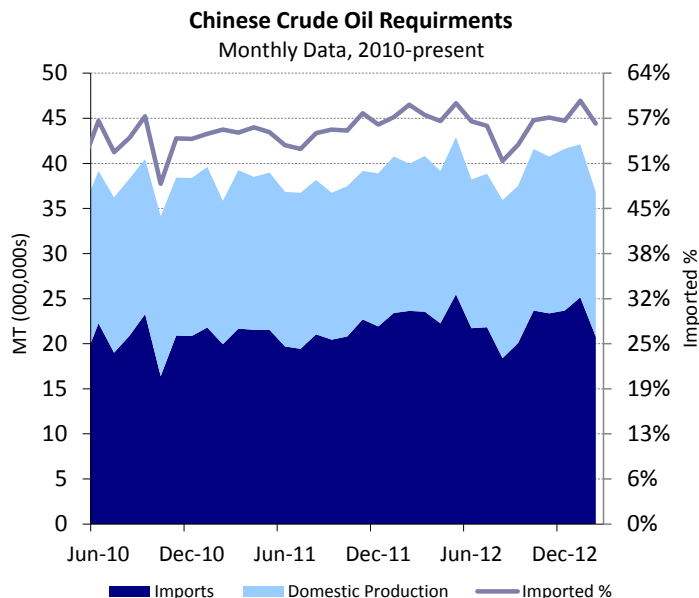
...as refinery capacity is expected to increase significantly



Source: IEA

Crude oil imports into China have continued to increase – briefly taking over the top spot a couple of months ago by some accounts – and are of key importance to dirty vessel demand going forward as North American crude oil production slows imports to the United States. However, the Chinese government did recently announce a cap on imports of crude oil and refined products of 61% of total requirements by 2015, up from approximately 26% in 2000 and approaching 60% in 2012. This import cap, along with the aforementioned agreements with Russia, would slow demand growth for seaborne imports into China.

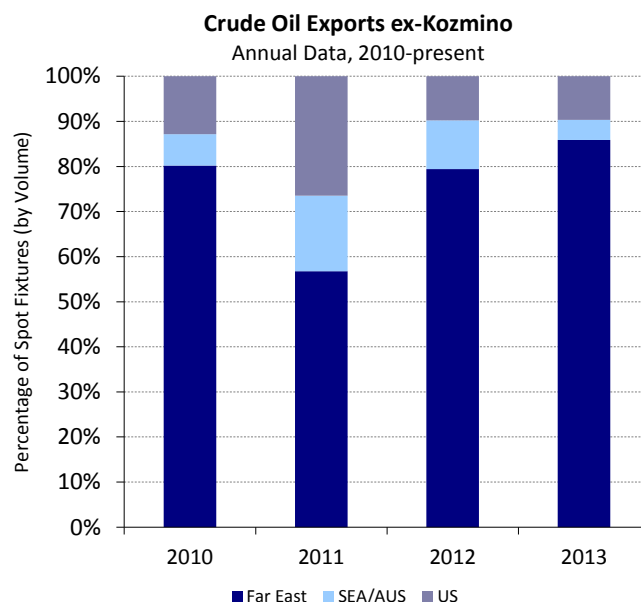
Chinese approaching self-imposed crude oil import limit



Source: Bloomberg

Deal part of broader Russian goal to access Asian markets

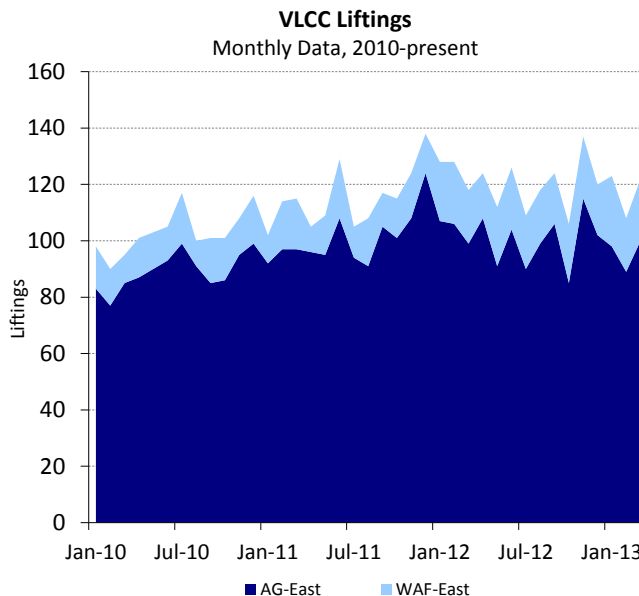
Lately, Russia has been aggressively building additional pipeline capacity in order to access alternative markets – mainly in Asia. In fact, there is a significant amount of spare pipeline capacity leaving Russia, giving it more optionality than it has had in the past (see 14 December 2012 [Opinion](#)). It is, however, using almost all of its current pipeline capacity to Asia. Likewise, a substantial majority of crude oil exports leaving the country via Kozmino, the terminus of the East Siberia-Pacific Ocean pipeline that opened for tanker exports at the end of 2009, are headed to Asia.



Source: Poten

Chinese demand for seaborne crude oil imports is crucial to demand growth in dirty tanker sectors. A substantial amount of these imports are on larger vessels doing longer haul voyages from the Arabian Gulf and, increasingly, West Africa.

Eastern liftings increasingly important to dirty sectors



Source: Poten

Agreement does incrementally lessen dirty tanker demand

Under today's operating conditions, the announced increase in crude oil imports from Russia could displace demand equivalent to around 12 VLCCs per year loading in West Africa or 8 VLCCs per year loading in the Arabian Gulf. In addition to these plans for increased land-based Russian imports, a crude oil pipeline that is slated to come online next year will carry 22 million tons of oil per year to China from the coast of Myanmar in the Indian Ocean, potentially cutting the distance associated with some seaborne crude oil imports into China. This continued maturation of oil pipeline infrastructure into China will dampen the vessel demand increases that have historically been associated with Chinese macroeconomic growth.

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