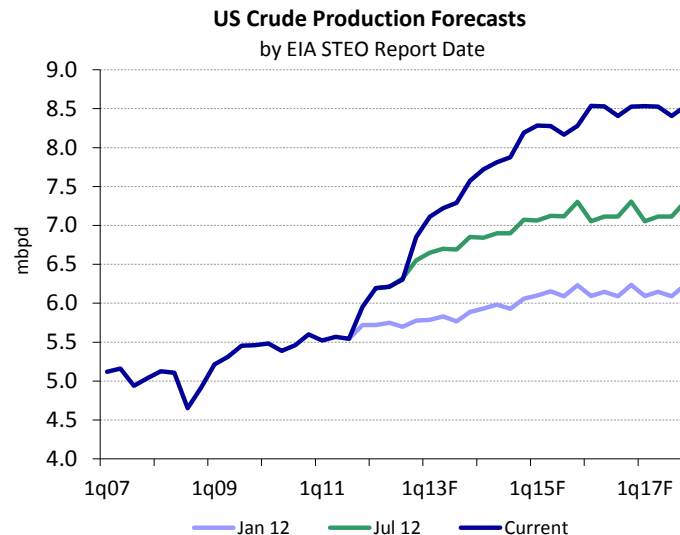


North American Production Continues to Alter Cargo Flows

Latest EIA report featured large jump in US crude production forecasts

The US Energy Information Agency (EIA) released their first Short-Term Energy Outlook (STEO) of 2013 earlier this week to much fanfare in the financial press. A continuation of production capacity increases in North America was indeed front page news. Although the growth to date in North American production has been well-documented, EIA forecasts a continuation of strong output growth in the near future. In fact, during the past year, the STEO forecast for US crude production has become more aggressive with each iteration. This growth, when combined with recent drops in US consumption and land-based transportation bottlenecks throughout North America, has continued to support the divergence between North American and global oil benchmarks. Between the resulting drop in US imports and the need for Canadian producers to gain access to other markets, developments are in motion that would no doubt have a substantial impact on tanker cargo flows going forward.

Production forecast for 2013 is almost 1.5 mbpd higher than last year's estimate

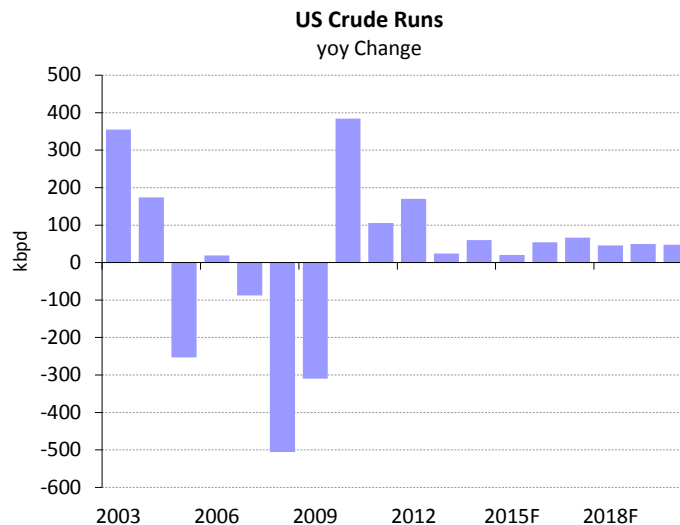


Sources: EIA, Poten

North American output forecast remains strong

Despite a recent decline in oil rig counts, the latest STEO projection suggests that US crude production should jump by another 890 kbpd in 2013, following a 780 kbpd rise during 2012. The forecast sees a deceleration in US output growth to 600 kbpd in 2014, but the STEO expectation for 2013 production has leapt by 1.48 mbpd since their January 2012 report. Including the EIA outlook for Canadian production, the agency now anticipates that North American output would be 1.14 mbpd higher by end-2013.

U.S. crude run growth remains relatively flat over outlook period

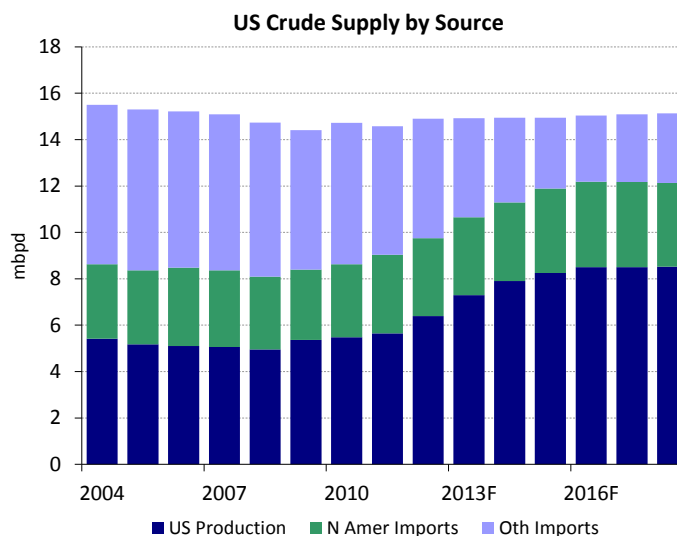


Sources: EIA, Poten

US output, plus Canadian & Mexican imports to reach 78% of US refiners' crude demand

Meanwhile, tepid US product demand growth should keep US crude runs rising modestly during the next several years, placing additional pressure on US crude imports, given this dynamic of increasing supplies and flat demand. Although seaborne Mexican crude imports should continue to slip lower, land-based Canadian imports, currently constrained by pipeline infrastructure issues, should more than offset the Mexican declines, suggesting that total North American crude supply could approach 12 mbpd by 2015, or 78% of US refinery demand. Seaborne crude imports from outside the region would collapse to 3.1 mbpd by 2015, from the peak of 6.9 mbpd in 2005.

U.S. seaborne crude imports from outside North America to approach 3 mbpd

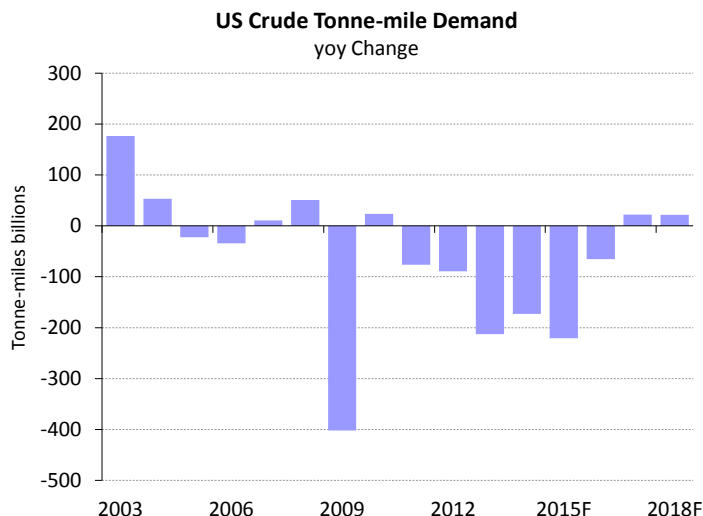


Sources: EIA, Poten

This dynamic would obviously pressure tonne-mile demand, even if the current, elevated levels of crude inventories should remain near 25 days of supply. Although not

frequently discussed in the shipping media, a return to historical crude storage levels would further depress US crude tonne-mile demand.

US crude tonne-mile demand to feel the pressure...



Source: Poten

Canadian seaborne exports to Asian refiners would offset decline...

Assuming the ability to largely overcome environmentalist opposition, increasing North American pipeline capacity would increase land-based imports into the US and increase seaborne exports from Canada, with Asia the likeliest of destinations. The latter development would be a positive one for tonne-mile demand, as would the likely increasingly eastward movement of light/sweet grades in the Atlantic basin brought on by falling US import demand.

...but dependent upon further infrastructure development

Although steadily-increasing North American production is a negative development for tanker demand, there are, in fact, offsetting effects that may help soften the blow. The impact of those developments will largely hinge on the development of further pipeline infrastructure in Canada and the ability of Canadian producers to export outside of North America. In any case, the more general trend of crude export flows shifting to the east is unlikely to abate at any time in the near future.

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