

# A long arm for shipping's 'invisible hand'

On 7th February, 2012, business journalist Joe Nocera published in the Op-Ed pages of The New York Times an opinion piece entitled 'Poisoned Politics of KeystoneXL'\*.

**T**his article argued that given the Obama administration's decision not to approve the Keystone XL pipeline (a politically and environmentally charged decision in an election year), the Canadian government has actively been seeking alternative buyers for the oil extracted from their tar sands; namely, they have been cultivating buyers in China through a recent trade mission headed by the Canadian Prime Minister.

The Keystone XL pipeline was supposed to pour oil from Alberta, Canada, to the US Gulf refineries where it could be processed and consumed in the US. The pipeline project was rejected partially on concerns about its impact per se on the environment and partially on an orchestrated effort by environmental groups that perceive oil production from tar sands to be highly energy-demanding and environmentally dirty as to deserve a boycott at any point of the chain from investment in tar sand projects to production, transportation and consumption.

Of course, the counter-argument will be about the overall carbon footprint if the Chinese end up buying Canadian oil and the US sources oil from countries more remote than Canada (like Venezuela, West Africa, or Middle East).

The economic benefit and the potential environmental impact of the pipeline aside, a shipping executive's mind has to focus on the economic benefit from the disproving decision of the pipeline on the maritime industry alone. Canada is an extremely stable country and a staunch US ally, and traditionally, most of the Canadian oil and mineral commodities find a big market in the US. No doubt, it makes great economic sense: a bankable and insatiable consumer market located close to the producer country along a peaceful border sharing same institutional principles (unlike 'buying oil from people who hate us'). But, from a shipping executive's perspective,

with international flag market interest, any prospects over this border trade were until now fully indifferent: oil from Alberta could be transported via continental pipeline, very economically once the pipeline was installed, to the Gulf of Mexico without ever touching a tanker; it will never pop the cork off of a champagne bottle! (for owners active in the Great Lakes shipping, of course, the commodity trade between Canada and the US is still a viable market).

If Chinese prove to be substantial buyers for the oil from the Canadian tar sands, logically tankers will be involved in transporting oil from the west coast of the North American continent to China. Obviously, this is inspiring news for shipping, and the tanker owners in particular. Almost like a *deus ex machina* intervention, a new trading route effortlessly appears on the globe map and the tonne/mile demand automatically perks up.

It's still premature to figure out what type of tankers will benefit most from such trade, but an educated guess may be that oil will be transported from Middle East to west coast US/Far East in VLCCs or Suezmaxes, which then would proceed in ballast condition to Canada to load tar sands oil for China discharge and then proceed in ballast to Middle East to load again.

## Triangulation

Clearly such triangulating schedule reduces the 'ballast leg' of the overall trip, as tankers crossing westbound the Pacific Ocean are in laden condition. It's still very premature to determine that the above scenario will eventually play out as such, or if it will serve as a catalyst for a market recovery from the current slump in the tanker freight rates. For instance, the pipeline may still be approved next year once presidential elections in the US are out of the picture after November 2012. Economic efficiencies and rational decision making in the market place are the major

assumptions for building economic models and market projects. Selling (and transporting) Canadian oil across the ocean to China instead of to the US, and having the US import oil from countries located further apart than next door Canada clearly is not the most efficient trade. As it turns out, in the market place there might be considerations that supersede economic efficiencies; in this instance, environmental and political concerns, whether for good or bad reasons, guide the market place toward a certain direction and toward the benefit of shipping.

There is little doubt that shipping is an industry driven by a multitude of variables and inputs, including financial, fiscal, monetary, geo-political, sovereign, social, environmental, regulatory and technological factors. In turn, each of these factors is the product of several additional sub-variables and minor nuisances; and, some of these variables may be correlated to some extent or possibly be fully independent. Any decent economic model of the industry about future projections has to deal with most, if not all, of such inputs.

The \$60,000 question becomes, however, how one treats the 'long tail' of all these variables? There is a small probability that each of these variables can vary widely. Whether some of the approximately 120 VLCCs still on order will be delivered later than scheduled, or cancelled altogether may be a small aberration that an economic model can tolerate.

On the other hand, if Canada finds in China buyers for all the oil supposed to be transported to the US by the Keystone XL pipeline (830,000 barrels per day), then potentially a VLCC will be required to load almost every two days; the impact on the market, the low likelihood of such scenario notwithstanding, can be much more meaningful, as 25 VLCCs (about 4% of the entire world VLCC fleet) will be required to service such trade.

High probability events sustain the direction of the market, but it's usually low probability events that act as catalysts and 'game changers'. It's the events that seem initially infinitesimally improbable that change the markets and can be a blessing, or a boon to market participants. As the CEO of Goldman Sachs mentioned once, 'I spent 98% of my time worrying about 2% probabilities'.

Shipping, an industry well known for its volatility has, time and again, shown that low probability factors outside the industry can very well create or destroy value in shipping. It seems that the cancellation of the Keystone XL pipeline may be poised to create such value for the shipping industry.

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## Transas supplies MMA with a full mission simulator

### Massachusetts Maritime Academy (MMA) recently hosted an opening ceremony for the American Bureau of Shipping Information commons building.

The 42,000 sq ft building houses the Academy's new full mission ship simulator, supplied by Transas USA.

It combines maritime tradition with the latest technology in maritime training, including the campus library, museum, archives, model ship collection, plus hi-tech simulation facilities, multimedia 'smart' classroom, and resource centres.

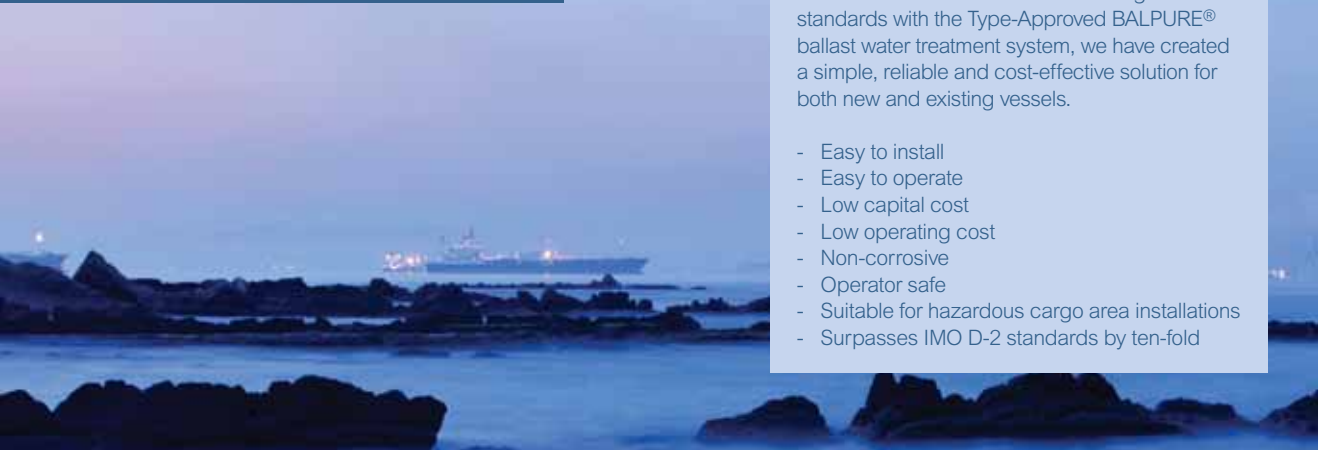
The new simulator and its support areas include a full mission, 360 deg bridge simulator, debriefing room, instructors control room and an ante room.

Modern navigation systems installed on the bridge, include an integrated navigation system (INS), dynamic positioning systems (DP2), ARPA/Radar multifunction displays, and ECDIS, all meeting the latest international maritime regulations.

The full mission simulator is in addition to the Transas Navi-Trainer Professional 5000 simulator systems already installed at MMA. It can operate either independently, or in joint exercises across campus for multi-vessel scenarios, with the existing tug bridge and electronic navigation laboratory.

As one of the US' six state maritime academies, Cape Cod located MMA claimed to balance a unique regimental lifestyle with a typical four-year college academic study course.

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