Caribbean Vacation for Surplus Crude?
Island terminals offer convenient access.

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Data Sources for This Publication
EIA
CME Group
Ursa Space Systems

To discover more about the data sources used, click here.

Tanks Expected to Fill Rapidly

Crude market signals all point to storage as the preferred option for producers this month. Contango has steepened to record levels in the futures markets. Crude inventories increased by 25 million barrels in March, and the nation's commercial storage tanks were 78% full as of March 27, according to the Energy Information Administration. Export markets in Europe and Asia are also weak. Daily tanker charter rates reached record levels of $229,000 for a 2 million-barrel very large crude carrier. With onshore storage filling rapidly and floating vessels expensive, offshore options including geographically convenient Caribbean terminals have gained attention. This note looks at how recent investors in Caribbean terminals are set to leverage their assets in this market.

State of Contango

The economic lockdown associated with battling the coronavirus has wrought havoc on petroleum demand. A supply runup by Saudi Arabia and Russia following the breakdown of the OPEC+ agreement at the beginning of March made matters worse (see our recent note Corona Crude Contango). Brent ICE futures six-month contango reached $13.01/barrel on March 30, the highest level since the contract began trading in 1988. The prompt Brent premium over West Texas Intermediate delivered at Magellan's East Houston hub reached $8.51/barrel on March 30, indicating heavy discounting for exports at the Gulf Coast. The more attractive Cushing storage hub traded at a $5.84/barrel premium to WTI MEH on March 30 as traders valued commercial storage over physical sales at the end of last month.

Nevertheless, with most of the pipeline capacity out of the West Texas Permian basin directed to Houston, Corpus Christi, and Nederland on the Texas Gulf Coast, considerable volumes of stranded domestic crude are now desperately seeking storage. Latin American producers that traditionally supplied the Gulf Coast market, such as Mexico, Brazil, Colombia, Ecuador, and Venezuela, are also experiencing lower demand and need additional storage.

Attractive Alternative

In this context, the Caribbean offers an attractive storage alternative, provided that capacity can be secured. Data from Ursa Space Systems suggests that available commercial capacity on the islands is still underutilized. Its satellite survey covers commercial and refinery storage capacity in the Caribbean, including commercial tanks at 10 island terminals. Among them, these terminals have 69 mmb of commercial crude storage capacity with 45 mmb of that capacity still available, according to Ursa's latest survey April 2. We assume this spare capacity is already leased and should fill up in coming weeks as cargoes are shipped from Gulf Coast and Latin American ports. Five of these terminals that we discuss below have recently been purchased by or are being sold to private investors who stand to benefit from the strong contango market.

Caribbean Advantage

The Caribbean is strategically located at the crossroads of international crude trade routes between the northern and southern hemispheres as well as the Atlantic and Pacific oceans. The Caribbean islands are particularly significant to petroleum markets because of their proximity to 56 refineries with 9.9 mmb/d capacity—more than half the U.S. total—in the Gulf Coast region.

The Caribbean offers at least nine deep-water ports that can accommodate the largest VLCC tankers used for long-distance voyages to Asia, while the U.S. has only one such facility: the offshore LOOP terminal. Increased U.S. domestic crude production from shale has reduced imports of long-haul crudes, ending a traditional role of Caribbean terminals in breaking down inbound VLCC cargoes into smaller batches to supply Gulf Coast refineries. Island terminals are now more often used to transfer smaller cargoes of crude from Latin American producers to larger vessels for voyages to Asia or Europe.

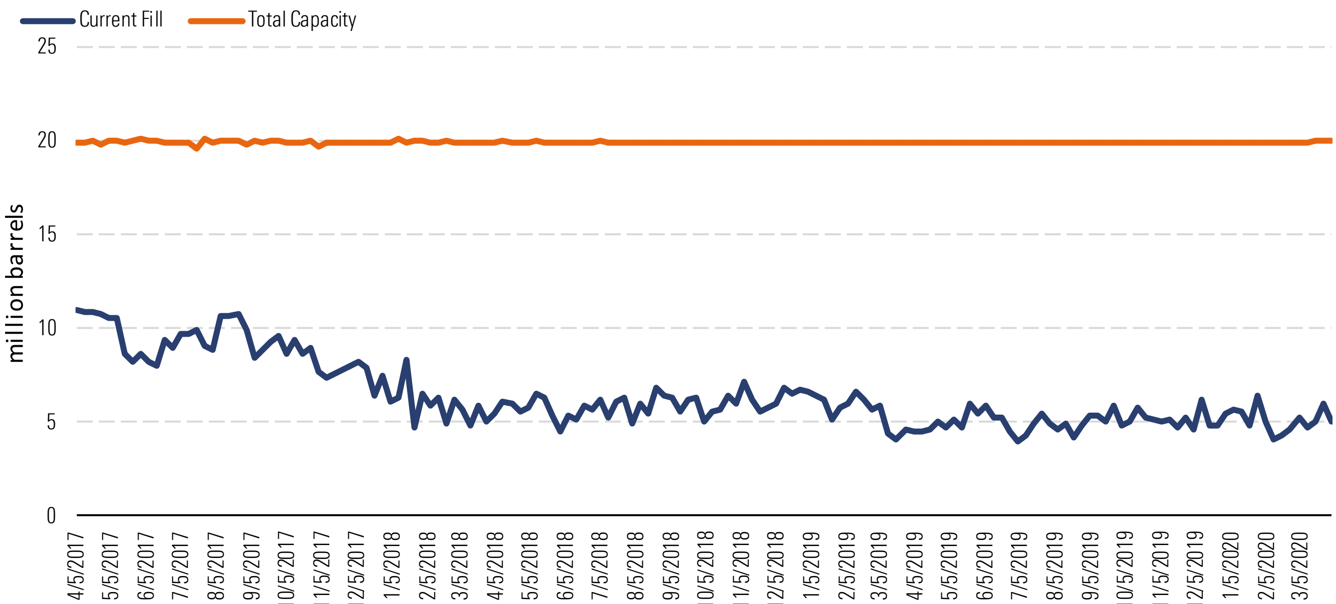
Our 2016 analysis of Caribbean storage (The Caribbean Crude Storage Market) detailed nine island terminals, largely clustered close to Florida in the north and Venezuela in the south. Although the use of the southern terminals has traditionally been dominated by Venezuela's state oil company, PDVSA, the stranglehold of U.S. sanctions on that country as well as its lack of investment has reduced operations significantly, creating opportunities for outside investors.

Limetree Bay

The former Hovensa refinery and terminal on St. Croix, U.S. Virgin Islands, was originally a joint venture between PDVSA and U.S. producer Hess until its closure in 2012 after three years of losses. In December 2015, the refinery was sold to Limetree Bay Ventures, owned by a consortium consisting of ArcLight Capital (79%), a syndicate of other investors (14%), and Freepoint Commodities (7%). Limetree Bay's initial commitment was to operate the site as a storage terminal and review reopening the refinery. The terminal executed a 10-year agreement for 10 mmb of storage capacity with Sinopec in 2016. A second storage contract for 3 million barrels of capacity was also signed with part owner Freepoint. The terminal currently has 74 tanks with over 20 mmb of storage capacity including 8 million crude and 12 million refined product barrels, according to a 2017 company presentation (see our July 2018 note PDVSA Meltdown Creates Caribbean Opportunity).

Since purchasing the terminal, Limetree has invested in a single-point mooring buoy—believed to have come online in December 2019—that accommodates fully laden VLCC tankers. The refinery is rebuilding and was originally planned to restart at the end of 2019 but is currently expected on line this summer (see our August 2019 note Market Timing Great for Limetree Bay Restart). A unique advantage for Limetree is St. Croix's exemption from the 1920 Jones Act that restricts cargo shipments between U.S. ports except on more expensive U.S. flag vessels, since it cuts shipping costs to Gulf and East Coast refineries. Data from Ursa shows as much as 15 mmb of Limetree's available 20 mmb commercial storage capacity is unused as of April 2 (Exhibit 1). Access to most of this capacity likely depends on Sinopec subleasing, but Freepoint can be expected to use its full allocation for contango plays.

Exhibit 1 Limetree Bay's Nonrefinery Crude Storage



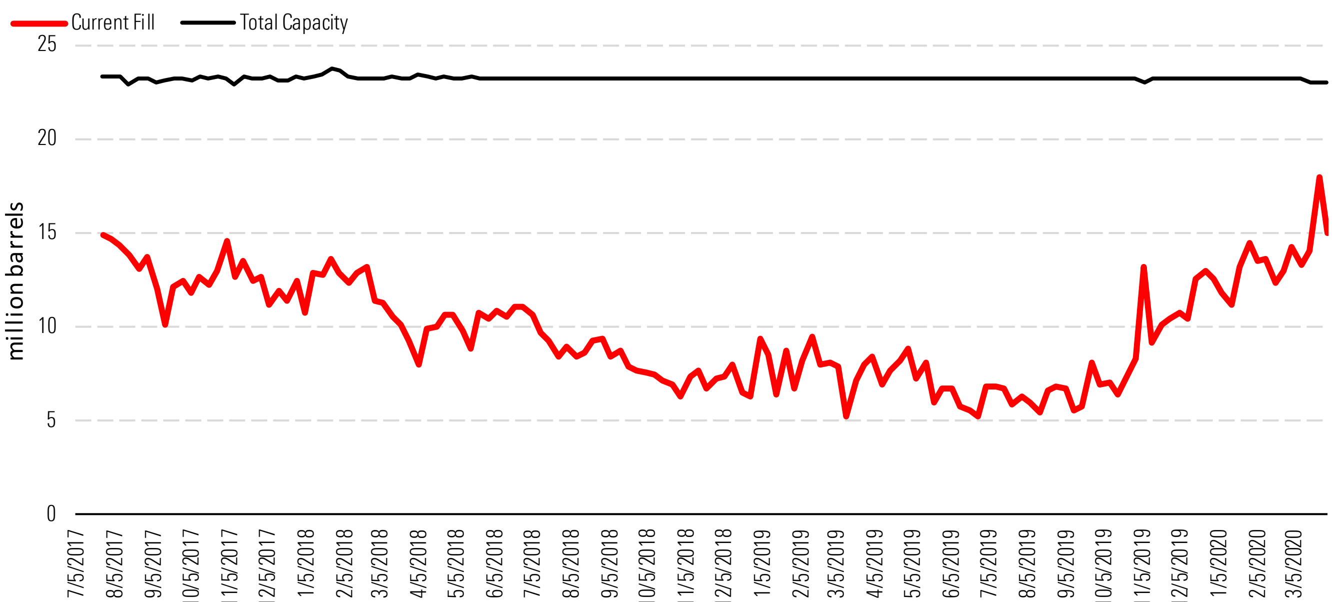
Source: Ursa Space Systems.

IFM Buckeye

In May 2019, Australian private equity fund IFM Global Infrastructure paid $6.5 billion for U.S. midstream terminal and pipeline operator Buckeye Partners. The Buckeye assets include two Caribbean terminals in the Bahamas and St. Lucia. The acquisition closed in November 2019. Buckeye's flagship terminal in the Bahamas—Buckeye Bahamas Hub, also known as Borco—has 23.5 mmb storage capacity in more than 80 above-ground tanks. The marine infrastructure at Borco consists of six deep-water berths and an inland dock with two berths that serve as access points to the storage. Borco is the largest fully operational storage terminal in the Caribbean, strategically positioned at Freeport along the Northwest Providence Channel of Grand Bahama Island about 80 miles from South Florida. Buckeye also owns and operates a former Hess terminal on St. Lucia and the Yabucoa terminal in Puerto Rico.

According to Buckeye's Securities and Exchange Commission filings, Borco has a limited number of storage customers that lease capacity under long-term take-or-pay contracts, consisting of major oil companies, energy companies, and physical traders. Although Borco is closer to U.S. shores than other Caribbean terminals, PDVSA was a long-term customer leasing 6 mmb of storage before pulling out in 2017 over payment disputes. Ursa data tracking Borco and St. Lucia indicates both have been filling since last July (Exhibit 2). Total commercial capacity at the two terminals is 23 mmb with current storage levels at 15 mmb or 65% full as of April 2.

Exhibit 2 Buckeye Bahamas and St. Lucia Terminals' Nonrefinery Crude Storage



Source: Ursa Space Systems.

Prostar Statia

In May 2019, U.S. midstream partnership NuStar Energy sold its St. Eustatius Caribbean terminal to Prostar Capital for $250 million. Now known as GTI Statia, this terminal forms part of Prostar's global terminal investment group, which also owns terminals in the strategic Mideast port of Fujairah in the United Arab Emirates. The Statia terminal has 14.4 mmb storage capacity in a mixture of crude and refined product tanks. Vessel berths include three floating barges and a single-point mooring for VLCCs. The terminal tanks are leased to various customers—including PetroChina, a sister company to Sinopec, with a contract for 5 mmb of storage capacity—and Brazilian national oil company Petrobras. NuStar terminated a long-term business relationship with PDVSA in March 2019 after multiple payment battles.

Curacao

The Bullenbay terminal on the southwest coast of Curacao is linked by pipeline to the 325 thousand b/d Isla refinery 8 miles northwest at Willemstad. The terminal has a VLCC deep-water port and 18 mmb crude and product storage capacity including special heated tanks to store heavy crude oil. The terminal and refinery are both currently leased from the government of Curacao by PDVSA under an agreement that ended in December 2019. The government agreed to lease the refinery and terminal to private equity investor Klesch Group, with the handover to have been completed last month. Klesch needs to invest in the terminal to restore full operations and plans to ultimately operate the refinery as well. Until it takes over, Bullenbay's commercial storage potential remains unclear. In the meantime, Curacao's state-owned Refineria di Korsou has taken control of an oil storage terminal on the nearby island of Bonaire over a payment dispute with PDVSA, according to Reuters. The Bonaire storage terminal has 7.5 mmb capacity that could also soon be available for commercial lease.

Future Risk

Although the duration of the present contango market structure is unknown, the ongoing battle for market share by Saudi Arabia suggests the international market may be oversupplied for some time even after the coronavirus demand threat recedes. In this situation, any oil storage assets have intrinsic value for traders and producers to park barrels in hopes of higher prices in the future. The continued meltdown of PDVSA's production and refining operations in the Caribbean represents an opportunity for private equity that investors have already taken advantage of. The contango market should provide solid returns on these investments that compare favorably with the current malaise in U.S. midstream pipeline infrastructure and shale drilling assets. As with any oil market investments, however, these assets carry considerable geopolitical risk (in this case the fate of Venezuela's economy) as well as the usual cyclical nature of the oil business.

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