Corpus Christi Objects to Trafigura Terminal
Port could lose 12% of revenue to offshore buoy.

Confidentiality and Criminal Past
With June crude production rising to a record 10.7 million barrels/day according to the Energy Information Administration, increasing volumes are headed to export markets, leading to a feeding frenzy from midstream operators building out pipelines to get crude to docks at the Gulf Coast. A related infrastructure scramble is also under way to improve the efficiency of export terminals by accommodating larger vessels. Competition for export barrels has turned ugly in one corner of south Texas. After federal restrictions were lifted in December 2015, Corpus Christi, Texas, was the first port to export crude cargo and since then has shipped growing volumes overseas. Now, a new terminal proposed by Swiss commodities trader Trafigura will bypass Corpus Christi docks and siphon off port revenue to a deep-water offshore buoy. The Port of Corpus Christi could lose significant crude tonnage and up to 12% of operating revenue. As a result, POCC has filed two objections to the Trafigura permit application, highlighting the company’s confidentiality and criminal past. This note looks at the Trafigura proposal and what the POCC has to lose if it succeeds.

Offshore Terminal
Trafigura has set up a subsidiary called Texas Gulf Terminals, or TGTI, that proposes to construct, own, and operate a deep-water port, associated pipeline infrastructure, and an onshore storage terminal facility. On July 5, TGTI filed a deep-water port license application with the U.S. Coast Guard, Maritime Administration, and U.S. Army Corps of Engineers. Exhibit 1 shows the approximate location of the onshore storage terminal, booster station, and proposed pipeline west of Corpus Christi, Texas (red line). The terminal will utilize a single point mooring buoy system (yellow circle), located 12.7 nautical miles off the coast of North Padre Island in Kleberg County, to load very large crude carriers, or VLCCs, holding 2 million barrels or more, at a rate of up to 500 thousand barrels/day. The onshore storage terminal will be linked to crude pipelines from the Permian Basin in West Texas and the Eagle Ford Basin in South Texas (green arrows) by pipeline connections yet to be detailed (pink arrow). The existing pipelines deliver crude and condensate to dock and refinery facilities along the POCC ship channel and to Ingleside in the outer harbor. The initial construction schedule suggests that subject to permitting, the project could be complete by the end of 2020. Trafigura is the sole sponsor and hasn’t yet received commitments to export crude from other shippers. Trafigura has signed a commitment with Plains All American for 300 mb/d of crude capacity on that company’s Cactus 2 pipeline from Midland, Texas, in the Permian Basin to Corpus Christi, which is expected on line by fourth-quarter 2019.
Exhibit 1 Corpus Christi Region

The proposed TGTI offshore terminal will effectively siphon off as much as 500 mb/d of crude currently being exported from Corpus docks by offering a quicker and more convenient way to load VLCC supertankers. As TGTI points out in its permit application, current restrictions at Gulf Coast ports limit the size of vessels that can be fully loaded. The POCC ship channel is only deep enough to accommodate laden Aframax vessels that carry about 700,000 barrels of crude. Larger 1-million-barrel Suezmax vessels can be accommodated in the outer harbor area. Outer harbor docks, such as Occidental Energy's Ingleside terminal, can only accommodate a partially laden VLCC. Since the major export markets for U.S. crude so far have been in Asia or Europe, shippers demand the lowest freight rates. VLCC voyages to Asia can cost $1/barrel less than a Suezmax. That means shippers typically transship crude from smaller vessels loaded at POCC docks onto VLCCs located at deep-water staging points in the Gulf of Mexico. The TGTI mooring buoy terminal would bypass POCC docks and the transshipment process to load crude directly onto VLCCs.
POCC Crude Business

Since 2012, the POCC has developed considerable business based on expanding crude shipments, first from the Eagle Ford in South Texas and more recently from the West Texas Permian Basin. Before federal restrictions on crude exports were lifted in December 2015, outbound crude from Corpus was mainly headed to domestic refineries along the Texas and Louisiana Gulf Coast on barges or to East Coast refineries by Jones Act tankers. Since the export ban was lifted, an increasing percentage of POCC shipments have been exports, up from an average 22% of outbound crude in 2016 to an average 75% between January and July 2018, when exports averaged 438 mb/d, according to POCC data (Exhibit 2). The past seven years have seen considerable infrastructure investment in and around Corpus Christi in terms of pipelines delivering crude, as well as crude storage tanks and private and public dock facilities. On July 24, 2018, the POCC successfully priced and sold $216.2 million of Senior Lien Revenue Bonds to be used for projects to deepen and widen the Corpus Christi Ship Channel. A $900 million Department of Transportation project is currently under way to build a new bridge over the ship channel to accommodate taller vessels.

Exhibit 2  Port of Corpus Christi Outbound Crude

The POCC has announced plans to build out a public dock in the outer harbor at Harbor Island that will accommodate VLCCs. Similar plans have been proposed by several companies, including the South Texas Gateway VLCC terminal joint venture between Buckeye, Phillips 66, and Andeavor; the private-equity-financed Eagle Ford Permian Ingleside Corpus, or EPIC, marine terminal; the Vitol/Hilcorp joint-venture Midway terminal; and expansions to the Occidental Ingleside terminal and the nearby Flint Hill Resources Ingleside terminal. None of these investments will be able to accommodate laden VLCCs until the POCC and U.S. Army Corp of Engineers increase ship channel depths to at least 80 feet. The current channel-dredging project will deepen to 54 feet to accommodate Suezmax vessels and won’t be completed until 2021.
In the circumstances, the Trafigura proposal represents a legitimate threat to POCC revenue and the return on investment for projects under way or proposed. Crude exports now represent a significant chunk of POCC revenue. According to POCC data submitted with their recent bond sale, total dockage and wharfage revenue in 2017 was $60.5 million out of total operating revenue of $95.3 million. Out of the total dockage and wharfage revenue, three companies with significant crude export terminals—Occidental, NuStar, and Buckeye—accounted for $11.8 million, or 12% of total port operating revenue.

Convicted Felons
It comes as no surprise, then, that the POCC has so far lodged two objections to the TGTI permit application with the Maritime Administration and the Coast Guard. The first of these objections, filed on Aug. 24, 2018, requests that MARAD and the Coast Guard withdraw their July 31, 2018, determination that the TGTI application is complete because of missing details concerning Trafigura ownership. In addition, the POCC notes the permit application’s failure to detail the company’s federal conviction for 2001 breaches of sanctions associated with the United Nations Iraq Oil for Food Program. In a second objection filed with the Coast Guard on the same day (Aug. 24), the POCC objects to the wholesale designation of corporate and project data in the TGTI application as confidential, to the detriment of public interest in the project. Reading between the lines, the POCC objections to Trafigura appear to be aimed at the Swiss trading company’s aversion for public disclosure of its ownership and operations, not to mention its criminal past.

Delay at Best
Whether the POCC objections are enough to discourage Trafigura from pursuing its offshore terminal project remains to be seen. We expect the permit application and approval process to be a lengthy one, particularly if POCC is willing to hold its ground. However, the best that POCC can hope for is to delay the project long enough for shippers on major new pipelines planned from the Permian Basin to commit to using Corpus Christi docks to export their crude. That won’t stop crude shippers transferring their allegiance to Trafigura once the offshore terminal is complete. In the meantime, Jupiter in Brownsville, Texas; Enterprise in Texas City; OilTanking, Enbridge, and Kinder in Freeport, Texas; and Tallgrass in Venice, Louisiana have all announced similar offshore terminal projects to facilitate VLCC loading along the Gulf Coast. If MORAD, the Coast Guard, and USACE approve one or more of these projects, then a similar terminal in South Texas would be hard to object to, whether it’s owned by Trafigura or not. III
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