



No. 22— HURRICANE SANDY

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In the aftermath of Hurricane Sandy, we will attempt to gauge its immediate impact on the tanker and petroleum markets. This is a difficult task as the wake of destruction caused by the storm has cut lines of communication, raising the challenge of discerning rumors from fact. Although the situation seems to be improving by the hour the lack of mobile phone service, computer servers and power have made the last few days trying.

At the time of writing, both news headlines and McQuilling Partners “water cooler talk” have been centered on gasoline supplies, reinforced by the line of cars in front of our office. Distribution channels ranging from ports to power outages at filling stations have resulted in a temporary shortage of petroleum product supplies, particularly in New York and New Jersey. This has further stalled any form of a return to a normal daily routine and stressed already frayed nerves of people throughout the region.

The biggest obstacle to delivering or receiving gasoline supplies is the continued closure of the main tanker discharge terminals, thus prohibiting the barge, pipeline or truck distribution to retail stations. According to the website for the Port Authority of New York and New Jersey, ports will be closed until full inspections are complete. As corrosive seawater, not infrastructure damage, appears to be the primary culprit at most ports, internal damage to sensitive gauges could be extensive. This makes assessing the damage or providing a restart time frame difficult for authorities.

Tankers that are presently waiting to offload gasoline cargoes will either have to divert to other ports along the East Coast or hope for a quick reopening. This is having an immediate impact on the availability of vessel tonnage that typically ballast to the US Gulf after a Northeast discharge which is then fixed on a backhaul voyage to Europe. On Monday (October 29th), this route closed at WS 85 and has since skyrocketed to WS 165 (Figure 1). The performance of TC14 prior to Hurricane Sandy illustrates that this is a short-term phenomenon not a new market reality. Meanwhile, note the muted trend on rates for cargoes sailing from Europe to the US (TC2). In the immediate term, this reinforces the fact that the gasoline shortages are the result of distribution bottlenecks, not import volumes. In an effort to provide relief at the pump on the East Coast, the Maritime Administration has issued a Jones Act waiver for the transportation of petroleum

products from the US Gulf between November 2nd and November 13th. These vessels must discharge by November 20th. However, the previously stated issues at marine terminals are likely to limit the impact of this waiver.

The situation on land while also not completely positive has the potential to rebound more quickly. It was reported on Friday that the Colonial pipeline had resumed operations to its tank farm in Linden New Jersey with delivery volumes expected to be normal at 700,000 b/d. Furthermore, the company expects to restart three more lines to other terminals, plus another two over the weekend. As power throughout the region is restored, pipeline deliveries and truck loadings have the potential to increase quickly and bring much needed reprieve.

On the refinery front, Phillips 66’s 238,000 b/d Bayway and Hess Corporation’s 70,000 b/d Port Reading units appear to have suffered the most damage in the region. According to various media reports no restart date for these units has been reported given the extensive damage from saltwater flooding. The utility provider Public Service Enterprise Group reported that power on the Bayway refinery’s grid has been restored.

Figure 1: Atlantic Basin CPP Spot Rates



Source: McQuilling Services

Given the vital importance of the ports and waterways to delivering a variety of goods, authorities and private terminal operators will likely be working around the clock to gradually increase utilization rates as quickly as possible.



These additional deliveries combined with muted gasoline demand (following the end of the driving season), reduced usage of auxiliary generators as customer's power is restored and a steady but gradual improvement in supplies should mitigate the situation in the coming weeks.

However, over the medium term, the market may need to factor in the potential that some damage will be lasting and require a shift in logistical practices. Immediately, this could include factors such as inaccessibility to ports due to floating debris or corrosion of critical instruments. In the longer term, shifting sands from the storm may result in certain ports being re-gauged and new draft regulations being issued.