US Senate votes to scrap ethanol tariff and subsidy

Move would provide boost for shipowners as Brazilian ethanol imports into US increase

BARRY PARKER – NEW YORK

ETHANOL, blended into motor petrol, is on the political agenda in the US, with potential implications for both tanker and dry bulk shipping.

With the government deficit weighing heavily on legislators, the US Senate voted to eliminate two subsidies. In theory, less US grown corn will be diverted into ethanol manufacture, in turn making additional corn available for domestic feed and for exports, as a $0.45 per gallon credit taken by refiners blending ethanol into petrol is eliminated. A second measure, the elimination of a controversial $0.54 per gallon tariff on ethanol imports into the US sets the stage for increased importation of ethanol, most likely from Brazil.

Still, the US House of Representatives has yet to pass the measures. The manoeuvring on Washington, DC's Capitol Hill is tied to political considerations way beyond shipping. Deficit reduction is an important theme, against a subtext of ending subsidies and tax breaks for "Big Oil". The overall cost of the two measures to US taxpayers has been estimated at between $5bn and $6bn annually.

Though not large in the total scheme of an estimated $1.5trn US deficit for 2011, the subsidy and tariffs have been politically vulnerable because of their perceived narrow benefits to specific groups — corn farmers and oil marketers.

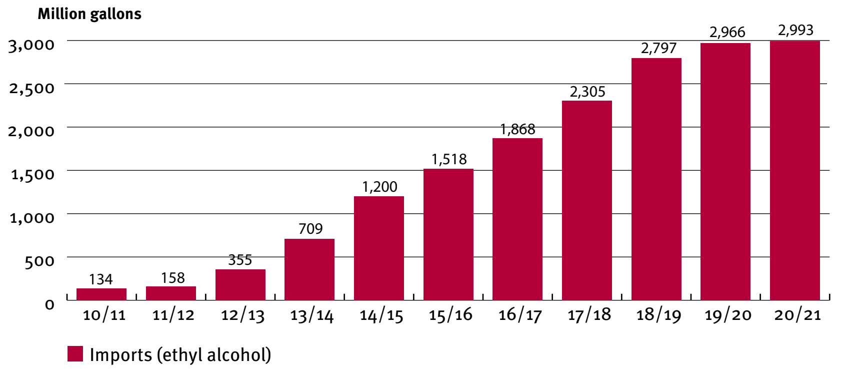
The Economist magazine applauded the latest Senate actions, describing them as "fiscal sobriety". Jack Noonan, chief executive of BLT Chembulk Group, an owner active worldwide in the chemical trades, told Lloyds List: "The US Senate's decision was welcome news among Brazilian sugar and ethanol producers who have long opposed the tariff."

Econometric models produced by the Missouri-based Food and Agricultural Policy Institute, a business/academic think-tank, provide broad guideposts as to what impacts shipowners might expect, once the House officially concurs with the Senate.

Owners in the chemicals trades should be heartened by forecasts of increased ethanol trades into the US. Its "baseline case", with elimination of the tariff and subsidy, shows sizeable US imports of ethyl alcohol at 158m gallons (about 500,000 tonnes) in the 2011-2012 crop year, climbing to 1.2bn gallons three years out (3.4m tonnes), and increasing to 2.9bn gallons (8.3m tonnes) by the end of the decade in the 2019-2020 crop year. An extension of the credit/tariff reduces import demand, according to the models, by yearly amounts varying between around 80m gallons and 394m gallons in 2014-2015.

Sugar cane grown for ethanol production in Brazil: the US is set to cut the controversial $0.54 per gallon tariff on ethanol imports into the country. AP

Ethanol credit and tariff expire (baseline)
Ethanol supply and use



Source: FAPRI-MU Report

Mr Noonan offered his views about likely impacts in the chemical tanker trades. He explained to Lloyds List that: "The immediate impact will be twofold from an ocean transportation point of view. First, Brazilian sugar cane-produced ethanol should become more competitive to most export destinations, including the US. Second, it will reduce or eliminate ethanol shipments from the US to Brazil. This is welcome news to owners who have established COA trades from the US to the east coast of South America, as it would provide more northbound backhaul cargo."

Mr Noonan was quick to add: "Conversely, it will hurt tramp owners who have depended upon fixing large volume ethanol cargoes from the US to Brazil on the spot market."

Fapri estimated that blending subsidies to gasoline marketers divert around 440m bushels of corn. US energy legislation, passed in 2007, mandates that refiners blend certain minimum quantities of ethanol into petrol. This means that this entire freed-up production is not directly channelled into increased dry bulk shipping demand.

A Fapri 10-year economic model predicts that, with an expiry of the blending credit and tariff, corn exports could be higher by between 60m bushels and 78m bushels annually (about 1.5m tonnes-1.9m tonnes) during the period. More soyabeans are also available for export — Fapri's simulation predicts increased bean exports of up to 25m bushels per year — roughly 700,000 tonnes of beans.

Besides the excitement generated among the growers, the events in the US have not gone unnoticed by oil majors and national companies. Reports from Brazil cite Petrobras' intention to increase its share of the local ethanol market, building additional capacity from present levels at around 900m litres per year for producing alcohol from sugar cane.

Raizen, a newly launched joint venture between Shell and a local ethanol producing consortium, Cosan Industria e Comercio, has indicated an intention to ramp up ethanol production for both internal and export markets.

The expansion, from an initial capacity of 2.2bn litres of annual ethanol production, is partly predicated on likely increased exports to the US.

Oil giant BP has also planted stakes in the Brazilian ethanol business; several months ago, it invested €492m ($698m) into a local producer CNAA, with an aim to produce approximately 1.4bn litres of ethanol annually. Still, there are wildcards — Mr Noonan pointed to uncertainties about "prices and indigenous Brazilian demand/consumption".

He explained: "Reportedly, Brazil is short on ethanol due to a poor sugar cane crop, resulting in higher prices." He said that sugar prices and domestic Brazilian ethanol prices are very strong — much higher than those of last year.

"If Brazilian domestic demand remains high due to, say, the increasingly popularity of flex-fuel automobiles, that, coupled with firm pricing, could result in reduced volumes for exports," he said. ■

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Work on tie-backs from Tamar to start next year

WITH the growth of offshore production, subsea activity plays a vital role in the ability of oil producers to achieve scale economies with existing infrastructure, *writes Barry Parker*.

Noble Energy's tie-backs from Tamar, a new producer offshore Israel, to Mari, producing since 2003, provide one of many examples.

In April, Noble awarded a contract worth $88m to EMAS AMC, a subsea contractor which is part of the well-known Singapore-based Ezra Offshore.

According to a company announcement, EMAS AMC "will install approximately 200 miles' worth of umbilicals and subsea equipment, as well as deliver subsea suction piles and jumpers" connected to Tamar.

The work will start in the second quarter of 2012.

EMAS AMC, the subsea umbilicals, risers and flowlines division of Ezra Holdings, is making a big push in this part of the business, describing its approach as a "bundled solution".

The tie-up between Ezra and Aker Solutions is part of a broader deal inked in late 2010, in which Aker Solutions acquired a shareholding in Ezra as part of the sale of AMC, previously Aker Marine Contractors, to the Singapore company.

The synergies include an ongoing co-operation agreement between EMAS AMC and the much larger Aker Solutions, which last week was demerging its Kvaerner Oil & Gas subsidiary.

Aker Solutions has a sizable manufacturing capability at Mobile the US Gulf of Mexico for the undersea umbilicals and distribution equipment

The benefits accrue in a very practical way; Aker Solutions has a sizable manufacturing capability at Mobile the US Gulf of Mexico for the undersea umbilicals and distribution equipment.

Ezra Offshore told Lloyd's List that its multipurpose offshore support vessel *Lewak Toucan* will be involved in the pre-survey and installation work at Tamar.

Ezra Offshore will also become a 50% owner of the multipurpose vessel *AMC Connector*, by virtue of its deal with Aker Marine Contractors.

The vessel, under construction at STX Europe's yard at Søviknes, Norway, is scheduled to deliver in the first quarter of 2012 into an underwater cable laying job for ABB. ■

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Israel and Lebanon take undersea border dispute to UN

A DISPUTE between Israel and Lebanon about an undersea border has moved onto the United Nations radar, *writes Barry Parker*.

Several months after Lebanon submitted a map delineating its proposed undersea border to the UN, Israel is now preparing to do the same. Both nations have, in turn, conferred with Cyprus, whose agreements with Israel and Lebanon will play a role in defining the undersea border. Landside politics plays a big role in such disputes.

The Jerusalem Post quoted Israeli energy expert Brenda Shaffer from the University of Haifa, as saying: "The resultant border dispute is then 'propelled by politicians' from both sides, 'who add fuel to the fire in order to promote unrelated domestic political agendas,' according to her article."

The path towards resolution is not clear; Ms Shaffer suggested that the UN would kick the dispute back to Israel and Lebanon to settle bilaterally, even though both countries were submitting their maps.

The outcome of this exercise will have implications for Israel's move towards becoming a major gas exporter. Another expert, from the Eco Energy firm, suggested that two big fields, Tamar and the larger Leviathan, appraised in 2009 and 2010, respectively, would not be impacted by the dispute.

However, the consultant suggested that resolution of ownership of future gas discoveries, in adjacent territory farther to the north, might be problematical. Noble's estimates of reserves, using the gross mean reserves method, total 8.4trn cu ft and 25trn cu ft, at the Tamar and Leviathan fields.

The Tamar field is in its early development phase, according to Noble, with plans to join five subsea wells to the existing infrastructure at the Mari field. Gas is then piped to an onshore terminal at Ashdod — which is now being expanded to handle the increased flows. Local reports say Noble is hiring another rig to supplement its existing charter of the semi-submersibles Ensco 5006 (ex Pride North America) and Sedco Express (on at $530,000 per day) as exploration at Leviathan and development at Tamar continues.

Port of Haifa, Israel; but undersea borders are harder to prove.

In a non-disputed area, a smaller player, ATP Oil & Gas, has recently announced that it will be hiring Transocean's Sedco Express for a drilling programme, following Noble's charter. Exploration, scheduled at three licences in the Levant Basi — newly acquired from the Israeli government — is scheduled for the second quarter of 2012, following acquisition of seismic data this year. In early 2012, permanent financing for Tamar production will need to be put in place. In June 2010, $430m of an 18-month bridge finance was raised by Noble's three partners — Delek Drilling Partnership, Avner Oil Exploration Partnership and Dor Alon Energy — from HSBC and Barclays Bank.

A lengthy gas sales contract with a major Israeli utility, commencing in 2012, will probably provide part of the security package backing the longer-term take-out financing. Noble Energy described its financial philosophy as a "fortress balance-sheet strategy, designed to support long-term growth".

As of May, Noble had access to $1.4bn of cash and a $2.1bn additional availability under a bank credit facility. Net debt-to-book value was a relatively low 17%, suggesting that it has ample borrowing power to fund its portion of Tamar when the time comes. ■

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