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US sanctions expected to make NITC the main carrier of Iranian crude

Iran's crude exports to China and India may stay intact despite US sanctions while Europe, Japan and South Korea reduce purchases of Iranian crude, according to analysts. NITC will thus need to shoulder more responsibility for Iran's crude sales, as some non-Iranian carriers withdraw from trading with the country

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MAERSK TANKERS IS WITHDRAWING FROM THE IRANIAN MARKET.

CRUDE oil flows from Iran to key US allies including Europe, Japan and South Korea may gradually dry up in the coming months after Washington decided to re-impose sanctions on Tehran, while Chinese and Indian purchases could be undeterred, according to some analysts.

The forecast changes in market dynamics suggest Iran will rely more on National Iranian Tanker Co for crude sales, as some non-Iranian tanker firms have started to wind down their businesses related to the Islamic republic.

“To a large extent, it will have to be NITC” carrying Iranian crude, said Banchero Costa’s head of research Ralph Leszczynski.

Analysts speculate the Iranian state carrier will return a significant portion of its fleet of some 40 very large crude carriers to store Iranian crude on the water, while using the remaining capacity to ship crude to China and India. Which is what happened before sanctions were lifted in 2016.

Based on past experiences, non-Iranian shipping companies tend to avoid business dealings related to Iran when secondary US sanctions are in place, which can serve as powerful deterrents when strictly enforced.

Maersk Tankers and Torm are among those to have stopped accepting new deals related to Iran.

China Merchants Energy Shipping and Cosco Shipping Energy Transportation, two giant state tanker owners, may also be forced to reduce their Iranian exposure, although this decision will also be dependent on the decisions of the Chinese oil majors, some local sources said.

Others may take a wait-and-see approach.

Euronav told Lloyd’s List in an email that it is too early to see how the sanctions will affect its operation as it gauges the reaction of European crude buyers and policing of sanctions by the US first. Frontline declined to comment.

Much will depend on whether the vessels can get insurance cover, Mr Leszczynski said.

Some protection and indemnity clubs have warned of potential ramifications from the sanctions on Iranian trade, even as their reinsurance agreements may stay intact with International Group of P&I Clubs based in the UK, which opposes the sanctions.

Even if insurance coverage is not an issue, uncertainty looms over which importing countries may continue their purchases after November and thus need to charter vessels to ship crude.

While the US unilaterally decides to re-impose secondary sanctions on Iran despite opposition from Europe, China and Russia, many non-US firms may wind down their purchases of Iranian crude if they have significant business exposure to the US.

Based on Maritime Strategies International's prediction, the sanctions could threaten European imports of 450,000 barrels per day of Iranian crude and Japan and South Korea's imports of 200,000 bpd.

However, because Europe's most powerful politicians strongly oppose Washington's unilateral move, and all importing nations are likely to seek waivers from the sanctions, MSI expects only 200,000 bpd-300,000 bpd to be eliminated in the next three months.

The remaining flows will be at risk when the sanctions take full effect in November, the consultancy said.

"Japan and Korea are more likely to co-operate, given their security arrangement with the US and the situation in North Korea," Poten & Partners said in a note. "European buyers might take a divergent approach, depending on their individual situation and the willingness of the Trump administration to make exceptions."

On the other hand, Iran may prioritise its sales to China and India, the two largest buyers of its crude, with direct shipments on NITC ships.

The two countries have seemed to carefully manage their exposure to Iranian supplies, regardless of sanctions.

While total Iranian crude exports nearly doubled to 2.6m bpd in April from early 2016, according to Lloyd's List Intelligence Apex data, their exposure changed little: China's imports of Iranian crude have averaged 608,000 bpd this year, compared with 636,000 bpd in 2017 and 649,000 bpd in 2016; India's have averaged 470,000 bpd in 2018, compared with 435,000 bpd in 2017 and 466,000 in 2015.

"Both China and India have also been receiving incentives and discounts from Iran on their oil purchases, which may also help encourage Iranian oil imports even in the face of US sanctions," Mr Leszczynski said. "Chinese state-owned refiners are largely expected to continue or even increase their imports of Iranian crude oil as they fall to attractive prices."