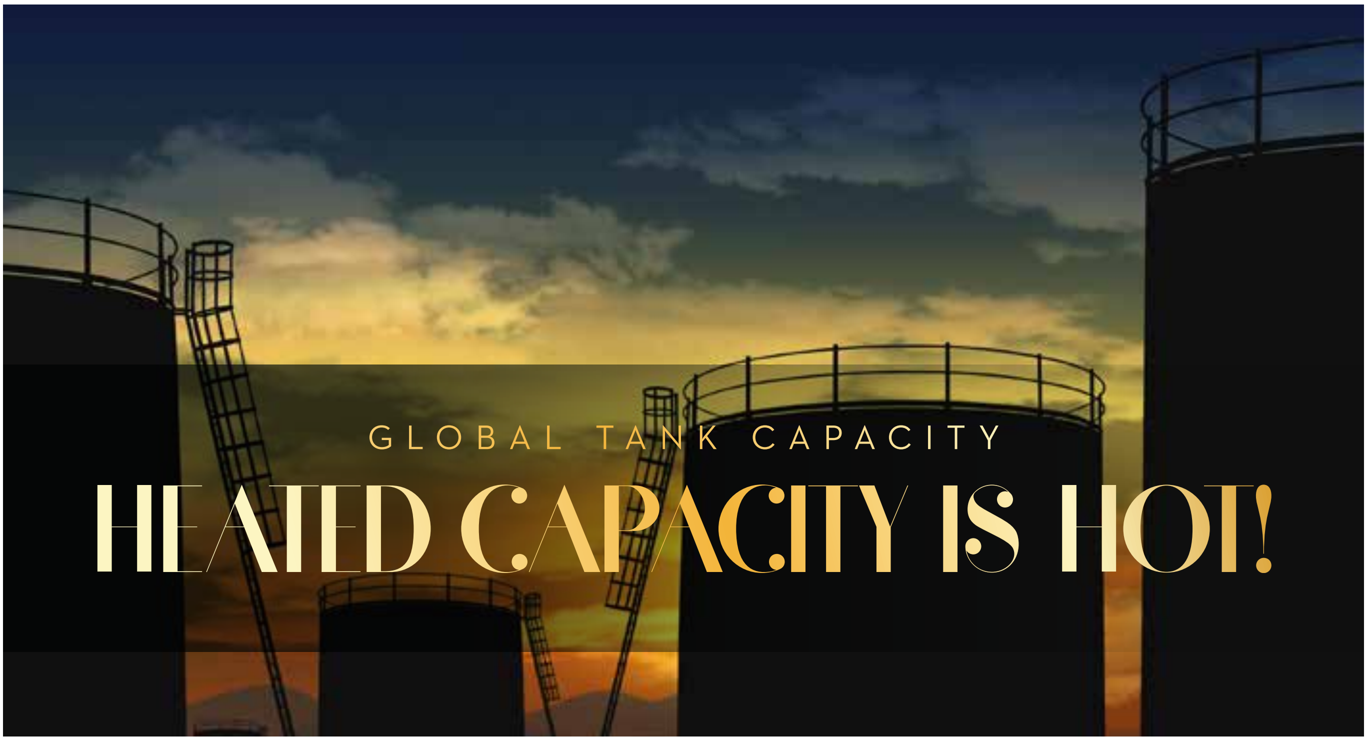

GLOBAL TANK CAPACITY

HEATED CAPACITY IS HOT!

As the world is finally entering the new IMO2020 era, all storage business areas have marked new records in occupation rates. However, new capacity is expected to come online in the course of the new year. And backwardation will hopefully not last forever!? *A storage broker's perspective on global storage capacity developments.*

Storage companies in the main ports (hubs) have noticed their free capacities disappearing quickly, and the implementation of the IMO2020 regulations can be considered as a turning point.

This turn will not come overnight as trade will have to prove itself in the course of the new year. However, shipowners will eventually have found their perfect bunker blends and refiners will have found out at what point their crackers produce an optimised spread. Those and other future developments will be of influence on the demand side of storage that we are keeping an eye on. As storage brokers, we obviously monitor the supply side just as closely to know where to store. Who offers capacity, and where exactly? What are the tank specs? Are they free and for what products are they suitable exactly?

Given the strong increase in demand for storage over the last year, it is not surprising that many terminals and investors have thought about their future investments. They are now putting their cards on the table: terminals will upgrade, renovate or expand with newbuild tanks. Based on a product type differentiation, we mainly see two developments: upgrading non-heated tanks, and newbuilding for chemicals and speciality products.

Several terminals have seen their chances to offer their non-heated capacities to the market diminish over the last years. With an increase in popularity of biodiesel and renewable diesel, most of which need heated and insulated tanks, this seems to be a logical next step. Moreover, although some traders have gambled on non-heated capacities, we can say that they have prayed for a hot winter. To upgrade the tanks, it is unavoidable that these capacities are off the market for some time, but the good news is of course that they come back upgraded. Additionally, most of that future hot capacity is sold long before it is back online and operational. The IMO2020 introduction has put extra pressure on the available heated capacity for fuel oil, but one or two years from now, this could have been a more temporary effect as ultimately the markets will settle at their new balance point. Certainly in the main hubs, the demand for heated fuel oil storage will always be higher than what the facilities offer, but that can be accommodated in the regions nearby.

IMO2020 ERA

On the oil product side, we have seen some interesting projects which will result in a market change. For example, BP concluded a huge terminal deal with HES in Rotterdam to have a pipeline connected to the terminal next to their plant. Currently, these clean petroleum products are stored at independent terminals that will feel the pain as soon as this large volume disappears. A similar

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move to consolidate volume in a terminal which they have a stake in, is Litasco with Sea-Tank in Antwerp, thus releasing capacity in Rotterdam and Amsterdam. For the hub ports, not too much suffering can be expected, but outer ports may pay the price. If you are currently storing in a port outside of a hub, you have a trading disadvantage. If you can move to a hub, this will create buy/sell opportunities plus higher product value. In the USA, we see a similar interest from the big cargo players to own or participate in a terminal where they store their product. Consolidating volume and building new terminals will result in cargo reshuffling.

In the chemical segment, we see a somewhat different development where terminals are renovating to comply with the latest carbon footprint requirements, expanding with stainless steel tanks versus mild steel. So much stainless steel low flash storage is expected to come online that you can wonder if the demand side is ready for that. Almost every chemical terminal in ARA is expanding, some even by doubling the existing capacity and very few against a contract. If we look at the situation as it is today, you could say that this opportunistic building is a natural response to the very tight chemical storage market and we shouldn't be too worried that these state of the art tanks will be left empty. Nonetheless, the capacity that will become available all at once is significant, not even to mention that entirely new terminals will additionally be built in the coming years.

> The big difference between the chemical and oil products terminal markets is the opportunistic view between the two.

An obvious positive result here for the cargo owners and traders: the market changes in their favour as it enables them to negotiate rates rather than having to accept "take it or leave it". Moreover, it will also create more room and chances for spot business. Spot storage requests are now often rejected by terminals as they have the luxury of favouring long term contracts over these spot requests, leaving these cargo owners empty-handed most of the time forcing them to look for other creative solutions. With this new capacity being almost entirely in ARA, the question can be asked of whether the surrounding regions will be affected or not. In general, 2019 was a great year for almost every chemical terminal in NW Europe, and because of the tightness in chemical clusters such as Antwerp, even the inland terminals had no trouble reaching high and healthy occupancy levels.

OCCUPANCY

The big difference between the chemical and oil products terminal markets is the opportunistic view between the two. Financing seems no issue in the chemical business without contract commitment, while the midstream market requires signed contracts or at least Letters Of Understanding to proceed on construction plans. Risk and lack of available capacity in the midstream are of course much higher although the investment costs on sophisticated chemical terminals are high too.

As storage broker, we are looking forward to the future since we see capacity coming available and our value to compare terminals will become even more important.

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