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***LOOP's Crude Export Plan May Draw Protest From Environmental Groups

A plan to export crude out of the Louisiana Offshore Oil Port (LOOP) may face potential protests from environmental groups.

OPIS reported in December that Shell was expected to be the first company to load crude for exports at the LOOP when LOOP begins bidirectional crude transport services in January for the first time. The first cargo could be loaded for export in the middle of January.

Anne Rolfes, director of the Louisiana Bucket Brigade, which is an environmental health and justice organization working with communities that neighbor the state's oil refineries and chemical plants, told OPIS on Friday that a Greenpeace ship could be sent to LOOP soon to protest the export of crude from LOOP because LOOP lacks a vapor recovery system for such an operation. She said that oil export operations without a vapor recovery system could be hazardous to the health of employees at LOOP.

"The crude export plan at LOOP is on our radar," Rolfes said.

Rolfes said that the Louisiana Bucket Brigade is looking at all angles, including regulations and legislature, to halt the crude export plan at LOOP. However, she conceded that the first export shipment may still take place at LOOP while the group sifts through the regulations.

LOOP officials have not returned calls from OPIS in December, and a Shell spokesman said on Friday that the company had no comments on crude exports out of LOOP.

Industry sources said that most export terminals in the U.S. have permanent or temporary vapor recovery systems to facilities cargo loading operations. A vapor recovery system could cost $50 million-$65 million, and it may take one to two years to install.

The lack of vapor recovery cost at LOOP means that oil exporters could save about 15cts/bbl or improve their arbitrage economics by that margin. This would give LOOP a cost advantage over other terminals on the Gulf Coast. A 15cts/bbl extra margin could save $300,000 per 2 million bbl load onboard a Very Large Crude Carrier.

Besides the potential fatter export margin, LOOP also boasts streamlined logistics of pumping crude directly from its underground storage caverns which receive crude from oil fields in the Gulf of Mexico, including Mars and Poseidon.

Currently, LOOP is handling only crude imports via VLCCs, but LOOP had made adjustments to accommodate an unprecedented crude export capability at LOOP due

to a combination of growing U.S. crude production and a wider Brent-WTI price spread. While U.S. crude is being exported, the outgoing volume is relatively small as most production still goes to domestic refineries based on economics.

A VLCC may boost the crude export economics significantly due to the economies of scale, and LOOP offers this option with potential cost savings, some sources told OPIS. A VLCC could load up to 2 million bbl of crude, and an Aframax tanker has a capacity of about 500,000 bbl.

To load a VLCC on the Gulf Coast, an oil company would need to hire four Aframax tankers or a combination of smaller tankers to conduct a ship-to-ship (STS) transfer to the VLCC at sea. This cumbersome and costly operation is necessary due to the limited vessel draft at some Gulf Coast ports.

This STS operation could cost about 30cts/bbl.

Also, these ships to be used for loading a VLCC need assistance of ship pilots for navigation within a port. This pilot operation could cost about 15cts/bbl.

LOOP, which has a single buoy mooring system for offshore ship loading, offers a streamlined crude loading on a VLCC, bypassing the need for STS and ship pilot operations.

Based on a loose calculation, the logistics and vapor recovery cost savings for each VLCC loading could be more than $1 million. There could be also other cost savings at LOOP compared with Gulf Coast STS operations.

Sources expect LOOP to see an initial export volume of one VLCC cargo a month.

LOOP is a joint venture among Shell, Valero Terminaling and Distribution Co. and Marathon Pipe Line.

This expected first crude export at LOOP in January comes after LOOP's publicly announced proposal in July to load VLCCs at its facilities.

OPIS reported in December that LOOP is expected to load one VLCC a month from January onward. Although this may be a milestone for the U.S. crude export market, the impact on the U.S. crude market and the Brent-WTI spread is expected to be insignificant due to the limited export volume at LOOP, they said. A significantly higher export volume could narrow the Brent-WTI spread.

This unprecedented export loading point at LOOP is unlikely to translate to a new Gulf Coast free-on-board crude export benchmark price because of the expected low volume. A new benchmark would require consistent liquidity, and this may occur much later.

LOOP is already receiving consistent inflow of Mars, Poseidon crude and other deep-water crude grades in the Gulf of Mexico, and some of these volumes are

expected to be exported via LOOP, they said.

In July 2016, LOOP, the operator of the nation's largest privately owned crude oil storage and transportation logistics facility, sought commercial interest from prospective shippers to utilize its existing facilities for crude oil vessel loading services onto VLCCs.

The new service would provide connecting logistics from LOOP's Clovelly Hub in Galliano, La., to its deep-water port, 17 miles offshore of Port Fourchon, La., it said. The proposal utilizes the existing configuration of the port with minor modifications to operate bidirectionally. Currently, LOOP's deep-water port has the capacity and capability of offloading these same vessels and moving crude oil from the port to the Hub.

"Since 1981, LOOP has safely offloaded more than 10 billion barrels of crude oil," said LOOP President Tom Shaw in July. The facilities as originally built include the fundamental capability to both offload and load marine vessels. "Today, customers are seeking the optionality to safely and efficiently load or offload, which is a natural request for a port. This service offers our customers the scalability to fully load a VLCC."

The proposed marine vessel loading services could be available by early 2018, Shaw said.