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MAGAZINE

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STUART BLACKADDER,
PRINCIPAL, PROSTAR CAPITAL



2019 was a year of advancement for Prostar Capital and our storage terminal investment platform, Global Terminal Investments (GTI). Our acquisition in July 2019 of the Saint Eustatius oil storage terminal in the Dutch Caribbean from NuStar Energy increased our total storage capacity more than 2.5 times. Combined with our two existing assets in the Port of Fujairah, GTI is now one of the largest financial sponsor-backed dedicated storage companies in the world, with more than 3.8 million m³ of capacity.

With a history of investing in storage terminals dating back more than 10 years, the Prostar team's strength lies in identifying the right assets and working with industry-leading managers to meet customers' needs and maximise the value of those assets. Only with the best assets and the best people are we equipped to handle the myriad of challenges facing the industry in 2020 and beyond, be it from market forces, increasing competition, or regulatory changes.

LOCATION, LOCATION, LOCATION

Having assets that are strategically located to serve global energy trading and logistics hubs has never been more important. An asset's ability to serve multiple product flows and multiple customers provides a critical strategic advantage. Prostar's terminals in the Port of Fujairah (Fujairah Oil Terminal and GTI Fujairah) have benefitted from a natural hedge against regional instability by virtue of their location outside the Straits of Hormuz. This, coupled with Fujairah's strong position as one of the world's largest bunkering hubs, and its continuing emergence as a critical export point for Abu Dhabi crude oil production, has meant that our terminals have remained well utilised in what has been a challenging geopolitical environment.

Our latest acquisition of the Saint Eustatius terminal (since renamed GTI Statia) is similarly consistent with this strategy of identifying well-located facilities. Having historically served multiple markets including Venezuelan and Saudi Arabian crude transshipment to the US, as well as regional bunkering and product markets, the facility is perfectly positioned to capture the rapid growth of US exports from the Gulf Coast.

Long-term, we continue to see the most compelling macro trend being the growth of primary energy demand in the Asian region. According to the International Energy Agency's latest forecasts, 80% of global oil trade will end up in Asia by 2040. Meanwhile, an increasingly large proportion of global output is expected to come from relatively new sources outside of the OPEC group. This shift is having a profound impact on global storage, logistics and trade as new trade routes open up and customers increasingly demand greater flexibility. Prostar sees highly attractive opportunities to acquire storage terminals that are strategically positioned in global hub locations to serve existing and new trade flows.

We feel well prepared for the projected geopolitical and economic uncertainty next year and beyond

SHORT-TERM SUPPLY AND DEMAND

In the short-term, the overriding themes are economic and geopolitical uncertainty. Most forecasters expect the global oil market to be in surplus in 2020, due largely to higher non-OPEC output, the reluctance of OPEC to further cut production, and sluggish consumption growth. The demand picture is uncertain and at least partially driven by US-China trade relations and tensions in the Middle East. Backwardation of the forward curve that has persisted for most of the last several years is currently at cyclical highs, due in part to the attacks in Saudi Arabia and US sanctions on Iran and Venezuela. Meanwhile, recent economic data is suggesting that the global economy may recover from the current downturn and avoid a recession in 2020, which could lead to a much tighter oil market than currently expected. The demand outlook for storage capacity in 2020 to a large extent depends on the outcomes of these market forces. Even within the context of increased uncertainty, Prostar is confident the quality and location of its assets, and its outstanding

relationships with customers, means GTI is well positioned for continued success regardless of oil supply or demand dynamics at any given point in time.

ADAPT OR PERISH

Each of our assets are an integral part of their local marine bunkering market. In 2019 Fujairah Oil Terminal has been consistently one of the most active fuel oil terminals in Fujairah, accounting for almost 30% of the port's throughput in 2019. GTI Statia, meanwhile, provides more than 250,000 barrels of marine fuel oil to its customers each month. Accordingly, we continue to closely follow the development of the market as we approach the IMO's January 2020 deadline for new sulphur content regulations.

IMO 2020 is estimated to cost the global economy up to \$1 trillion over five years in the form of higher refining and transportation costs, ultimately passed on to the end customer. It can also be expected to shift demand towards sweeter crudes such as those from the US shale basins. In anticipation of IMO 2020 and against a backdrop of a global policy shift towards emissions reduction, GTI's terminals have been working closely with its customers on ensuring compliance and maintaining product and service quality standards.

INVESTING FOR GROWTH

In a post-IMO 2020 market, infrastructure flexibility, blending capability and the ability to rapidly respond to customers' changing needs are critical. GTI has invested significant capital in ensuring that all of its infrastructure provides flexibility to its customers, often providing bespoke configurations to support customer operations. In Fujairah, we are evaluating the potential to connect our facilities to the port's shared VLCC infrastructure. Through this connection, our customers can benefit from the port's growing role as a regional crude logistics hub. At GTI Statia, we are investing heavily in infrastructure upgrades and pipeline connectivity.

Furthermore, each of our assets benefit from the potential to significantly scale up capacity. As our customers' needs grow, we are in the fortunate position to be able to support and grow with them. GTI expects to invest well over \$100 million in capacity expansion over the next two to three years as the demand for storage grows.

At Prostar, we have been fortunate to complete a major transaction this year, and as a result, significantly expand our GTI platform. Given the strategic positioning of our terminals, our ability to provide bespoke configurations for clients, and our forward-thinking approach to IMO 2020, we feel well prepared for the projected geopolitical and economic uncertainty next year and beyond.

