

TANK STORAGE

EU-US COLLABORATION

Is the transatlantic relationship dead? FETSA's Ravi Bhatiani takes a look

MOVING PRODUCT SAFELY

Woodfield's Gary Reddecliffe shares his top learnings from marine loading projects

CHEMICAL EXCELLENCE

Hear how Gadot Belgium and Exolum Mannheim are diversifying their terminals and winning business



WOODFIELD

RESHUFFLING YOUR TERMINAL FOOTPRINT

Insights Global's Patrick Kulsen explores how geopolitical events prompt traders, producers and consumers to rethink their supply chain structure

> RECENT EVENTS, like the closure of the Strait of Hormuz, were categorised as 'highly unlikely' just a year ago. Traders and supply chain managers are now waking up in a totally different world where past risk profiles and scenario planning exercises are unrealistic and need to be recalibrated and aligned to a new reality. The implications are immense, and the bulk liquid supply chain is finally getting its spotlight on a global stage.

A NEW ERA: GLOBAL COMPETITION

Since the outbreak of the war in Ukraine in 2022, we're witnessing a new normal in global politics. Namely, the ending of the era of globalisation and the start of an era of global competition. Increasingly, the strategy of major blocks and super-powers can be typified as a 'zero-sum' game, where the gain of one block goes at the expense of other players. Cooperation is much more transactional and based on self-interest. Common-good issues like fighting global warming, preventing plastic waste in oceans, fighting diseases or preventing wars and conflicts are pushed to the background, and are becoming increasingly difficult to solve because it doesn't satisfy the interests of all major players.

INCREASED GEOPOLITICAL RISKS

This 'new normal' in international politics

has already translated into various situations that either have, or potentially will, disrupt normal business and supply chains. A list so far:

- Tariff wars
- More (armed) conflicts
- Increased use of economic sanctions
- Blockage of trade routes
- Sabotage as a result of hybrid warfare

This increases the likelihood of market, supply chain, and distribution channel disruptions that result in changes of trade flows and can totally alter locational economics. With these risks in mind, players need to rethink and redesign their business models and processes. This recalibration should be aimed at reducing exposure to geopolitical risks.

DIVERSIFYING SUPPLY CHAINS & MARKETS

One of the main results of globalisation was different countries developing their own specialisations and capabilities – with the aim of generating the optimum value. These capacities were usually where a country had a distinct competitive advantage.

This process, fuelled by open markets and global competition, resulted in an ever-greater concentration of production assets in a handful of regions. For instance, in base chemical markets, investments in production assets were mainly concentrated in China, the Middle



East and the USA. China: because of the proximity of downstream markets that needed the chemical products and their high growth rates. The Middle East and the USA: because of the very low energy and feedstock prices.

In the previous era of globalisation, this concentration of production was never an issue. Low transport and distribution costs contributed to this specialisation process. Most importantly, because of open and free trade, goods could flow from producing regions to demand centres across the world.

But this is exactly what's going to change. Global competition will spark conflict – and already is. Rivals will try to sabotage and cut off each other's vital supply and trade routes, thus disrupting the flows of products.

Some trade routes are extremely exposed to such disruptions. There are eight main maritime choke points that can be identified:

1. Panama Canal
2. Strait of Gibraltar
3. Cape of Good Hope
4. Bosphorus Strait
5. Suez Canal
6. Bab-el-Mandeb Strait
7. Strait of Hormuz
8. Straits of Malaca

There are also secondary maritime choke points like the Danish Strait and the Taiwan Strait that are also important for global trade.

A lot of these names have been in the news recently. The container vessel 'Ever Given' blocked the Suez Canal and caused a major trade disruption in 2021. One of the first foreign policy

actions of President Trump was to pressure Panama to force the Panama Canal's Chinese shareholder to sell its stake to US investors. The Houthis, an Iranian proxy-group, and the Iranians themselves are trying to control both Bab-el-Mandeb Strait and the Strait of Hormuz, both major oil trade arteries. This is exacerbated now by the USA's own blockade at the latter strait.

The point is that if your supply or trade route passes through such choke points you should be aware that these flows are exposed to geopolitical conflict risk.

IMPACT ON SUPPLY CHAINS

Trade and supply chains are and will become more vulnerable to geopolitical risks. The era of stability and order will be replaced with a more volatile and chaotic phase in history. As a result, business

models need to adapt and supply chains need to become more robust. Diversification, flexibility, and safety stocks are key instruments to manage this exposure to geopolitical risk.

Location and routing of trade flows relative to choke points is also very important. Strategic hubs located in stable regions – the so-called 'safe havens' – and are unconstrained by possible issues in choke points, will flourish. This means that we will, most likely, see that companies will re-assess their asset portfolio and prefer to be in safe-haven trade hub locations because this enables them to safely continue their operations and trade and transport their commodities. Regions that have a disadvantage relative to choke points will seek measures to cope with geopolitical risks. They are likely to invest in infrastructure to help bypass these choke points as this represents optional value and stimulates business and prosperity in their region.

WHAT ABOUT TANK TERMINALS?

As we see an increasing focus on robustness, diversification, flexibility, safety stocks and clustering of production assets in safe-haven trade hubs, we conclude that this will have a positive effect on tank storage business.

More tanks and terminal infrastructure will be needed to create a robust system, to facilitate a diversification of supply and transport modalities, and to add flexibility. Storing increased safety stocks also requires more tanks. This terminal infrastructure will preferably be built in the safe-haven trade hubs as this adds to flexibility and guarantees continuity of business.

Furthermore, in locations that are threatened to be cut off by geopolitical conflicts, infrastructure to facilitate alternative trade routes are likely to be built or reinstalled. If these alternative trade routes are used to transport liquid bulk products you will need to build and operate tank terminals at various points in that supply network.

The new era of global competition will require us to invest more in 'just-in-case' capacities, strategic stocks, and invest in more tank terminal capacity.

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CASE STUDY: THE CLOSURE OF THE STRAIT OF HORMUZ – HOW TO ADAPT?

As a case study we will take the closure of the Strait of Hormuz to determine possible ways to cope with such disruptive events. We will take two perspectives: (1) a producer of crude oil in Iraq; (2) an airliner in Europe that consumes jet-fuel.

IRAQI CRUDE OIL PRODUCER

Iraqi crude is mainly loaded in Basra, a port located along the Persian Gulf. The closure of the Strait of Hormuz would effectively shut off their crude export flow. As an alternative route, crude produced in Northern Iraq can be piped from Kirkuk to the Mediterranean port of Ceyhan in Turkey. But damage and maintenance issues prevent the pipeline from being exploited to its full capacity. Furthermore, it cannot reroute the whole crude production as the design capacity is too low.

A way to reduce the impact of a closure of the Strait of Hormuz, Iraq, in cooperation with Turkey, should restore the Kirkuk-Ceyhan pipeline infrastructure and possibly enlarge its capacity to be able to pump close to 100% of its crude oil production through this line. In that case, it could switch flows from the Persian Gulf to the Mediterranean without any impact. It would also be wise to enlarge crude oil inventories at the receiving terminal in Ceyhan in order to make sure the switching process is smooth and to have some sort of strategic stock in place.

AIRLINER IN EUROPE

European airliners need jet fuel to power their business. The vast majority of that jet fuel is petroleum-based jet-kerosene. Sustainable Aviation Fuel (SAF) is still only a fraction of the fuel needed.

Jet-kerosene is produced locally in Europe's petroleum refineries. However, local production is not enough to cover consumption levels. As a result, a lot of jet-kerosene needs to be imported. A source of jet-kerosene is the Persian Gulf region, along with India, China and South Korea.

A closure of the Strait of Hormuz would significantly reduce the jet-kerosene production and export volume, as both jet-kerosene flows and crude oil flows from the Persian Gulf would be cut off. These crude oil flows primarily go to Asia and thus the production of jet-kerosene in India, China and South Korea would also be reduced, leaving the world with a severe shortage of jet-kerosene.

A way to cushion the impact of such an event is to hold more strategic stocks in Europe. Furthermore, structurally increasing SAF production and blending targets of SAF into jet fuel would also help diversify supply. Another way to secure supply is to contract jet-kerosene supply from refiners active in the Atlantic basin, which is not constrained by events in the Middle-East.

01 Patrick Kulsén, CEO, Insights Global & TankTerminals.com