

# SHIPPING AND ENERGY TRADE FLOWS

*Interview with Nicholas Watt  
Held by Irina Mironova and Frederik Boumeester*

## Abstract:

What aspects of ENERPO education were helpful in building a career at a price reporting agency? What is the role of shipping in energy trade flows? How has the shipping landscape changed in the view of the shifting geopolitical situation post-2022? Is it affected by the Energy Transition? These questions are covered by Nicholas Watt, Editorial Manager, Freight at Argus Media.

**Keywords:** freight, shipping, energy trade, ENERPO

## Морские грузоперевозки и энергетические торговые потоки

**Аннотация:** Какие аспекты образовательной программы ЭНЕРПО помогли построить карьеру в ценовом агентстве? Какова роль морских грузоперевозок в энергетических торговых потоках? Как изменилась ситуация на рынке морских грузоперевозок с учётом меняющейся геополитической ситуации после 2022 года? Повлияет ли на это энергетический переход? Ответы на эти вопросы даёт Николас Уотт, руководитель редакционного отдела по фрахтованию Argus Media.

**Ключевые слова:** морские перевозки, торговля энергоресурсами, фрахтование, ЭНЕРПО

**ENERPO:** *Today we are happy to interview one of the founders of the ENERPO Journal – Nicholas Watt. Nick, can you talk about your current position at Argus and your duties in general? What experience from your ENERPO studies was relevant for you in this position?*

**NICHOLAS:** I'm Nick Watt, and I'm the editorial manager for freight at Argus, a price assessment agency. About ten years ago I was a student at the ENERPO Program and helped start up this journal: the ENERPO Journal. And it's exciting to see that it's continuing! The program got me into energy studies. It got me interested in how markets function and, specifically, how energy markets function. What we do at Argus, as a price assessment agency largely in the energy space, is assess markets. So, in that way ENERPO was very good preparation. It was a great introduction to supply and demand fundamentals. And I think what the ENERPO program did for me was really show how important the political side is in markets. And I guess 'geopolitical' would maybe even be a better word to use for that. So, once a regulation changes or when some sanctions kick in, then supply and demand kind of goes out the window a little bit. So, I think an appreciation for that, which started at ENERPO, has been beneficial to me in this job.

**ENERPO:** *How does Argus collect and analyze data on shipping and energy trade flows, and what role does your team play in providing insights to market participants?*

**NICHOLAS:** Essentially, we are journalists here at Argus. It is a little bit different, though, from standard journalism in which you're talking to contacts and looking to get a nice story out of it. While we do that, a lot of the information that we're gathering is market information. Maybe not so much the quotes, although we do that, but we're after the *deals* that move the markets. So, for freight, my team talks to the various players who are in the shipping world. When I say 'players', those would largely be the ship owners or ship operators, and the people on the chartering side, and then the ship brokers who set up these deals.

Generally, our assessments are in the spot market, which in the shipping world means deals for a single journey. Let's say you've got some charterer that's looking to move a cargo from A to B. They're going to be trying to find a ship if they don't have one in their internal fleet to carry that cargo, and they're going to use a ship broker to make the deal happen. So we talk to all of these players and collect that commercial information as much as we can. I think we do it in the way

other journalists approach their jobs too: it's about trading information and trying to understand what the people you're talking to are seeking. You can help fill their needs. If we aren't good at sharing information, then we're not going to get very good information back and then our price assessments will suffer. We make sure that we do a good job of that. That's how we collect the data.

And then in terms of analysing it... maybe the best way to talk about that is to mention that we have a very strong methodology for how we synthesize this data and generate the price assessments that we publish and that our subscribers buy.

Each report has its own methodology and that really forms the backbone of Argus' editorial side. And it's really important to have that and have that publicly available so everyone understands the rules that we are following when we produce those assessments. I mean the actual data is not publicly available, that's only for subscribers, but the way that we assess it is publicly available.

**ENERPO:** *Is it the correct understanding that you don't just collect the data but it's rather a mutual process? Do you exchange information?*

**NICHOLAS:** Yes, but it depends on the market. Some markets are much more transparent than others. In some markets people send across deal sheets and then it almost becomes a very straightforward data exchange. And some markets, it's very much like a phone call market, so if you want to know what's happening, you really have to call this person at 3 PM every Thursday because that's when he finishes up lunch. I mean it really depends on the market. And so, in the freight market a lot of it is over a chat platform. Sometimes people use various chat platforms, sometimes it's over email, and sometimes it's a phone call, but I would say freight is largely text message style.

**ENERPO:** *What share of this freight market is spot based? For example, in the natural gas market, you have a long-term segment of the market (long-term contracts), then something in between, and then a spot market. And 'spot' has had the tendency of growing particularly in Europe, but also in Asia-Pacific. So, what does it look like in freight?*

**NICHOLAS:** That's a good question. Again, it depends on the market. But if we're talking about crude oil tankers, a large share of total crude production is loaded onto ships. The majority of the deals that underpin those cargo movements are spot. That's just for a single voyage, right? And then the rest could be under a time charter in which someone leases a vessel out for one, two, five, ten years. And then there's another kind of charter – a bare boat charter, but that is a little bit different and not super important to what we're talking about.

However, one thing that's interesting is that these are not mutually exclusive. You have a lot of players who will take an oil tanker out on a time charter for five years and they don't

need it, so then they relet it back out onto the spot market. That'll comprise a lot of the spot market and then there's some people who don't take any vessels out on time charter and are always just looking on the spot market for tonnage. And you have some ship owners that only operate on the spot market. You have some ship owners that are much more balanced, "We do half and half for our fleet". And then some ship owners will time charter in more vessels because they think they can make more money on the spot market, if they think, "Okay, spot rates are going to rise in the next year, let's go ahead and try to take more vessels in on time charter and then lease them out on spot charter". And then when you get into other segments, it gets smaller.

If you're talking about clean tankers and refined products... A clean tanker is a type of vessel that carries refined products and it's got a special lining. Those are more likely to be on a longer term charters. The smaller the vessels, generally the more opaque the spot market gets because there's just not as much happening. And, yeah, you have less trade, which discourages faith in the spot market, so people think, "I don't want to dip my toes into that too much".

And then if you're talking about LNG carriers, that's going to be largely time charter – pretty long term deals.

**ENERPO:** *Maybe we won't even include it in the interview, but I have to ask. Besides ENERPO, my day job for the past couple of years was actually at Gazprom strategy department. And we calculated the costs of our main competitor at that time – it was before 2022 – for the European market. It was the US LNG. And when we were calculating the costs of US LNG, we added up the Henry Hub price plus the transportation and regasification cost. We added the transportation cost based on spot charter rates, but we used the return trip in our model. So you would book the vessel to bring LNG to Europe but then calculate as if it would have to go to Europe and back to the Gulf of Mexico or to the Asia-Pacific and back. Was it the correct approach for the model or was it wrong?*

**NICHOLAS:** That sounds right. That makes sense because if you wanted to make a similar kind of calculation in other markets, you include the ballast leg. Because those are the economics that someone who's got a ship under time charter would be looking at. He would think, "alright, if I lease my vessel out to this other person, what is the equivalent amount of money that I would want to get back out for this voyage that I'm paying into this time charter"? And they would be looking for a round trip voyage because they've got to think about where they are going to position their vessel next.

**ENERPO:** *Since February 2022, there have been very significant changes in energy trade flows because there were sanctions introduced against Russia. There was a big reorientation of at least Russian foreign flows toward the eastern markets. Europe had to make up for the differences, to balance the missing amounts from elsewhere. So that must have led to big changes in freight markets.*

**NICHOLAS:** It did.

**ENERPO:** *What trends could you highlight in that respect?*

**NICHOLAS:** Speaking about the oil market, you're exactly right, that situation led to major changes. Russian crude oil was largely going to China and India instead of to Europe. And you're right, European refiners had to replace those lost barrels with similar grade barrels from elsewhere. That was largely from the Americas, especially the US Gulf Coast and to some extent Brazil and Guyana. If you think about it, on the shipping side, that means longer voyages. A lot of that Russian crude that was coming to European refiners from the Baltic region, that's a pretty short trip. Maybe four or five days or so? But now, that cargo is moving to India instead of Rotterdam. That's going to be twenty or so days – quite a lot longer. And those European refiners are taking in barrels from farther away. They're not taking it from the Baltic or the Black Sea, but instead from shipments out of Houston or out of Corpus Christi in the US Gulf Coast or Latin America. Those will also be fifteen to twenty five day voyages.

What that means is that it stretches the oil tanker fleet. When you have a tighter oil tanker fleet, that's reducing the supply available for cargoes and that puts upward pressure on prices. We saw it in November of 2022, when freight rates were record high on a few routes, and that was right before Europe banned Russian crude oil – it was before the products ban. European refiners scrambled to charter vessels from the US Gulf Coast or Latin America and that tightened the market. And shipping was able to command very high freight rates, all-time highs on some routes.

The situation calmed down since then – hit a bit of a slow period this summer. Chinese crude oil demand has been a little underwhelming from a lot of people's point of view, so that's loosened the market. And OPEC has continued to constrain supply, which has also put downward pressure on tanker rates since fewer cargoes have to move. To be honest, I think the weakened rates are temporary. I think once you see a bit of an oil supply or demand increase, that stretched fleet is going to make itself apparent and rates will come back up, especially because there aren't too many new vessels coming online in the next couple years.

So the average distance that oil now travels to a refinery has increased, and it works for both Russian oil and oil that arrives in target markets like the European Union.

**ENERPO:** *We've looked at geopolitics and their influence on the shipping market and now this big trend of Energy Transition: has it affected the shipping markets in any way? Can you see from the shipping market developments that Energy Transition is or is not taking place? Or is it just something that we discussed a lot but it's not actually having an impact on the physical flows?*

**NICHOLAS:** That's a good question. There are a few ways to answer it. My main answer would be that Energy Transition

on does not right now affect the shipping market. The vast majority of vessels on the water still run on oil-based fuel. And if oil demand continues to climb, you still have vessels carrying oil. It's a strong demand. So I guess that would be the main answer there.

But there are some asterisks here. In terms of shipping supply, there are quite a few vessels on order, and this is not just in the oil tanker market but other segments as well. When the new ships are delivered from the shipyard, many will be equipped with the means to burn LNG or methanol. A lot of those haven't been delivered yet. It takes about two years or so to build a vessel. But on the order book right now is a large chunk – I'd hesitate to give it a figure – that will have the means to do that. Having the means to use LNG is different from actually doing that. A few years ago burning LNG was quite a lot cheaper than some of the oil-based fuel. But then the natural gas market got really tight, and any vessel that had the means to burn oil-based fuel, did that. So instead of using the cleaner fuel option (which in this case is LNG) everyone looks to burn the cheapest. I think that's the case right now.

**ENERPO:** *Aren't we running back into the steam engine based on coal, that's the cheapest?*

**NICHOLAS:** Well I don't know if we're going to go quite there but if it's cheaper...no, I still doubt it.

**ENERPO:** *Good to hear!*

**NICHOLAS:** You do have some ship owners that are testing out some biofuels blends because that can work pretty well with oil-based fuel. Some percentage of bunker fuel can be biodiesel-based. And one of the things that's happening in the shipping market that I should mention from a regulatory standpoint is, starting next year, shipping will be included in the EU's ETS – their emissions trading system. So, if you are a shipper and you're operating in the EU, you're going to have to buy allowances to burn the carbon on a voyage into, or out of, or within the EU. Argus Freight publications have assessments for exactly how much that cost will be. That's something I've been working on a lot lately. Most likely, shippers are going to pass along that cost. It's possible that, down the line, more efficient vessels are going to be the ones that will go into the EU, and the less efficient ones won't, because they have to pay more for compliance reasons. So, a lot of questions yet to be answered on that. But that regulation is coming into force and that's like the first carbon tax for shipping that we'll see.

**ENERPO:** *Interesting, thanks! That was very insightful. Can you provide examples of specific energy commodities that heavily rely on shipping? I mean here that there are two ways of relying on shipping. Firstly, for those commodities where a large share of production is exported and thus needs to be transported, and the second way is those where the large share of the final price is actually shipping, not the production costs but the transportation cost within the final cost.*

**NICHOLAS:** Saudi Arabia would be a good example of where most of that production is exported. So, the biggest oil shipping market is in the Mid-East Gulf and it's largely because of the Saudi barrels that are exported, mostly on VLCC's. Yeah, that would be a big example there. I think Russia would be one as well, and in a lot of ways. And Brazil for iron ore. That's a major iron ore exporter, so a lot of the dry bulk vessels will be taking those cargoes mostly to China. China is a big iron ore importer so that's a pretty long journey. But the dry bulk market has been very weak lately so it's not that shipping cost is taking up a huge chunk of that delivered cost.

In terms of where shipping is really important from a pricing standpoint, it depends on the markets both for the commodity and freight. There was that time back in early Covid when Saudi Arabia increased production significantly. It was in 2020 and oil prices went negative. And tanker rates just went through the roof because there's all that floating storage. There, you added just about on any route for at least a few days shipping comprising over half of the delivered cost of a barrel. But that's calmed down. The smaller the vessel you look at, generally the higher share of the cost it'll be. Not the highest share, but the higher freight cost will be. But if it's a really expensive commodity, then freight can be pretty small. But if you've got low oil prices and you're talking about oil and a niche route, then you might have a pretty high share. So one specific example is there are increasing export crude oil exports out of Argentina. And because of draft restrictions at that port, they can only handle Panamax size vessels, small ones compared to VLCC. A lot of these Argentinian barrels go to the US West Coast and that freight cost is about 11 dollars per barrel. And as you know, the crude market is very volatile, so crude can fall by twenty percent or so. It depends on how you do the calculation, but it very much varies. I wish I had an easier answer for you, but it varies quite a lot.

Freight is not usually high enough to completely change flows. It depends on the market, but if you're talking about oil, if there's high enough demand in some region for a certain kind of grade, it's probably going to go there and you'll just eat the freight cost. Maybe if it's too high, then traders won't find it economical. Freight can be very high, but it's generally not the deciding factor. It might change the margins a bit, but not the overall geography of flows.

#### **About Nicholas Watt**

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Nicholas Watt is the Editorial Manager, Freight at Argus Media. He has previously worked as Americas freight editor and a market reporter for freight at the same agency. Prior to joining Argus, Nicholas was Editor-in-Chief of the ENERPO Journal and Student Facilitator at the European University at Saint Petersburg.

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