

International Exports and Imports of gasoline and diesel from Port Metro Vancouver

Submission by interveners Robyn Allan and Marc Eliesen on the need for reliable export and import data discussed at the Oral Workshop, including Port Metro Vancouver source data on foreign exports and imports, as requested.

An increase in foreign imports does not necessarily mean that higher cost refined products are being imported or there is a reliance on US markets for supply. Reliable export data is critical as is an understanding of the contractual relationships between the sellers of international supply and the purchasers of international supply.

It has been publicly acknowledged by Parkland that Parkland and Chevron have entered into long term agreements for Chevron to supply refined product BC Chevron stations—formerly owned by Chevron and now owned by Parkland.

Further, Shell owns a refinery in Washington State but there is no evidence on the public record that identifies Shell's sourcing of refined product from its refinery, although Shell has confirmed that it imports gasoline from 'refiners' in the Pacific Northwest. If Shell does source supply from its US refinery—which is likely—it would be expected to do so under favourable commercial terms facilitated when an operation is integrated. That is, Shell sourcing supply from its US refinery would be expected to deliver a low-cost barrel relative to alternatives.

There are serious concerns over the veracity of the Department of Finance data that Deetken has relied on, not only because this is the first instance where this data has been used for this purpose—as well as it being the first time Deetken has done so—it is not a publicly available data set.

Given the serious time constraints the Inquiry is under, proper scrutiny of the data Deetken has relied on has been frustrated. Many conclusions seem to be being drawn from the data by various interveners while there is contradictory data, such as Port Metro Vancouver and the US Energy Information Agency (EIA) that is available and leads to quite different conclusions. The data contradicting the Department of Finance data is both reliable and publicly available.

Port Metro Vancouver has consistently collected international export and import data, and reported it on a monthly basis, for years. It is unclear why Deetken did not seek to obtain this data but has relied upon Department of Finance data that is untried.

Chart 1 provides a summary of foreign imports and exports of gasoline and diesel through Port Metro Vancouver from 2015 to 2019. The data bases relied on to generate this table have been included as part of this submission.

Chart 1

INTERNATIONAL IMPORTS AND EXPORTS – BC					
Gasoline and Diesel Barrels per Day					
	2015	2016	2017	2018	2019 Jan - April
Gasoline					
Imports	16,778	15,898	8,688	17,891	4,819
Exports	11,825	17,424	15,037	4,360	3,540
Net	4,953	(1,531)	(6,349)	13,531	1,279
Diesel					
Imports	5,757	4,937	1,801	4,694	4,307
Exports	7,474	12,197	11,785	11,810	13,340
Net	(1,717)	(7,260)	(9,984)	(7,116)	(9,033)

Source: Port Metro Vancouver Brackets represent **Net Exports**

There is a substantial difference between the export data from PMV and that provided by Deetken during the Oral Workshop. This discrepancy alone raises serious questions regarding Department of Finance data, as mentioned above. It should be noted that a source of the discrepancy may be related to the fact that Port Metro Vancouver data is based on volume whereas Department of Finance data is based on value. As Deetken explained in its data disclaimer provided in Phase 1, Department of Finance data is used for taxation purposes and therefore required ‘adjustments to approximate total volumes.’

Since there is no evidence that indicates any meaningful volume of international rail imports or exports of refined product to or from the US, it can be assumed that the majority of international trade for gasoline and diesel is conducted through the Port of Vancouver

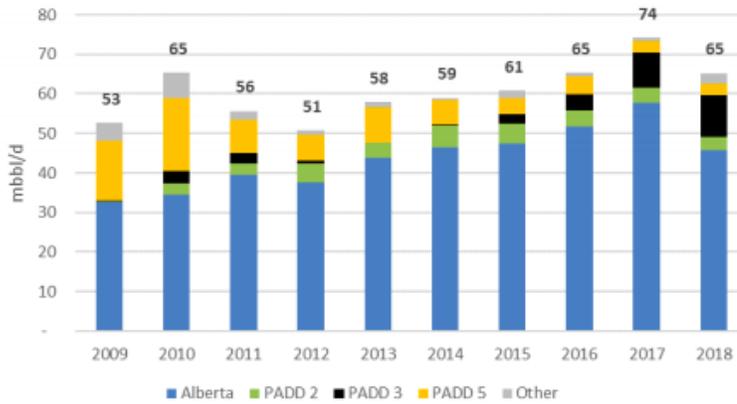
Evidence indicates that long-term, mutually beneficial arrangements have been entered into between Parkland and Chevron for foreign imports.

“So three things (to ensure no shortage of supply during planned maintenance) one is we do build up some inventory. The second is we will look to our refining partners to assist. And then the third is import. **We also do have an ongoing supply relationship with Chevron** and they will be assisting us through that.”¹ Parkland CEO, Bob Espey (emphasis added)

¹ Parkland Quarter 3 Results, Earnings Call, November 3, 2017, Seeking Alpha.

The Deetken Report, Phase 1, identifies an increase in international imports of gasoline and diesel from PADD 3.

Chart 3.2.3 Gasoline Imports to BC²³



After Alberta, the United States is the next largest source for BC's gasoline imports. Historically, BC's US imports have come primarily from the Petroleum Administration Defense District (PADD) 5 region of the USA. This district includes Washington, Oregon, California, Nevada, Arizona, Hawaii,

and Alaska. The majority of BC's gasoline imports from PADD 5 originate from California and Washington State. However, starting in 2015, a growing share of BC's gasoline imports have also been coming from the PADD 3 (US Gulf Coast) region.

Source: Screenshot, Deetken Phase 1, page 12.

During the Oral Workshop, reference to foreign sourced imports from PADD 3 has been made by parties as if they are being delivered from the Gulf Coast. However, in addition to there being a concern over the veracity of Ministry of Finance data to represent the volume of imports and exports (export data supplied by Deetken suggesting far less exported than Port Metro Vancouver international export data indicates), there is some concern over the reliability of the source of imports in the data because the data is reported on the basis of office-of-the-order-placed rather than the refinery where the product is produced. Thus, the data may suggest PADD 3 exports when they are not coming from PADD 3.

For example, Chevron—with refined product supply agreements in place with Parkland—has its head office in Texas, although Chevron manages refined product supply through California and other geographic locations. Depending upon how orders are reported on Ministry of Finance data, this could mean that what have been identified as PADD 3 shipments are not coming from PADD 3. Deetken agreed at the Oral Hearing to look into source of supply reliability in the data.

However, it is useful to note that part or all of the increase in US imports may be due to mutually beneficial business arrangements between Parkland and Chevron. That is, the trade data may not reflect arms-length spot transactions, but mutually beneficial long-term arrangements, with Chevron supplying refined product to what are now Parkland's Chevron retail outlets.

Determining the volume of product imported and exported by Parkland, by market, over the period 2015 – 2019 is critical in this regard. The discussion that follows is relying on limited publicly available information, albeit supported by an understanding the authors have of business

negotiations and the financial benefits of entering into ongoing supply arrangements that on the surface may suggest supply constraints when they do not because they represent profit maximization for the companies involved in the supply arrangements. That is, enhanced business returns and not lack of domestic supply can and likely does result in supply being sourced from what appear to be increasingly distant foreign markets.

Intervenors have suggested that PADD 3 sourced refined product is more expensive than local, when this may not be the case. Notwithstanding that the marginal barrel argument is invalid in all but a perfectly competitive market, it has been repeatedly suggested that the transportation costs are driving refining margins, when in fact delivered barrels from PADD 3 or PADD 2 could be less expensive because of mutually beneficial import and export arrangements between ‘partners.’

Assuming Parkland is importing product from Chevron in the US as per long-term agreements, then an increase in imports from PADD 3 would be explained as having little or nothing to do with lack of supply from Alberta, but as a result of lower cost options for Parkland. (Again, assuming the data properly represents PADD 3 deliveries as actually being sourced in PADD 3).

There is no question that gasoline produced in BC declined in 2018 as compared with 2017 since Parkland’s refinery maintenance shutdown meant a reduction in overall annual capacity utilization. The data suggests the shortfall was made up through foreign imports, but this does not mean it could not have been made up, at least in part, by Parkland itself.

According to trade data as reported by Platts, in January 2018, Parkland exported 180,000 barrels of refined product to Washington State just prior to the shutdown. What we do know is that Parkland has an ongoing gasoline and diesel supply arrangement with Chevron which may explain why the exports occur. Since both parties are sophisticated companies the supply arrangements would be expected to be mutually beneficial in financial terms.

It is interesting to note that in his statement to analysts, Mr. Espey does not consider other refiners as competitors, but as ‘partners.’

Chevron’s remaining refineries, from which it appears Parkland has an agreement to source supply, are all located in the US. Chevron’s four U.S. refineries have the combined capacity to process 932,000 barrels of oil per day. Refineries are in Richmond and El Segundo, California; North Salt Lake, Utah; and Pascagoula, Mississippi. In January 2019, Chevron acquired a refinery in Pasadena, Texas.²

Chevron also has a fleet of US and internationally flagged tankers and relies on its trading operations to ensure its refined product is marketed. “Chevron’s Supply and Trading organization provides a critical link between Chevron’s Upstream and Downstream operations. Headquartered in Houston, Texas, with additional trading hubs in London, Singapore and San

² [Chevron Website. https://www.chevron.com/worldwide/united-states](https://www.chevron.com/worldwide/united-states)

Ramon, California, it provides commercial support for crude oil and natural gas production operations and our refining and marketing network.”³

Chevron has significant business incentives to create a global network and lock down ongoing markets in which it can sell its refined product. In electing to sell its operations in BC, the company likely would have built its strategy into its negotiations. Perhaps the terms of the purchase price for the assets reflect the benefit in the long-term arrangement for Chevron’s product since a higher price for refined product would be passed on in the BC market given the extremely high refinery margins compared to other markets.

The terms of the ongoing supply agreement between Parkland and Chevron means that purchases of gasoline and diesel from Chevron are very likely lower than the price Parkland faces as its next best alternative for those volumes—and may even at times be better than the pricing of its BC produced product given the instances where Parkland has exported gasoline and diesel, even adjusting for transportation.

It is critical that if trade data is to be relied upon it be accurate and reliable and that the business relationships underlying the trade are appreciated. Otherwise false conclusions will be drawn regarding the ‘marginal’ barrel, supply ‘dependence’ on foreign markets, degree of market concentration (assumed competitive and price determined in the spot market when the market is highly concentrated and price is imbedded in long-term contracts between ‘partners’ mutually beneficial to both parties while wholesale price charged reflects excess profits) and impact of import barrels on generating a need for wider margins, when they do not.

³ Ibid.

Port Metro Vancouver Data Foreign Imports and Exports

The annualized volumes for foreign imports and exports relied upon in the Allan and Eliesen Report was obtained through a special request to Port Metro Vancouver thereby ensuring only international trade figures were relied upon (see bottom two categories in table below: **Foreign Import**, Diesel and Fuel Oils, and Gasoline and **Foreign Export**, Diesel and Fuel Oils, and Gasoline) The metric tonne volumes were converted into barrels relying on CME conversion calculator for gasoline, and the separate calculator for diesel available at https://www.cmegroup.com/tools-information/calc_refined.html

It should be noted that the monthly data for 2019 relied upon by Allan and Eliesen is bulk data since PMV had not finalized the figures for 2019 when the data was requested, however, PMV has confirmed that bulk traffic data is “most of the volume of petroleum products.”

Table 1

https://www.cmegroup.com/tools-information/calc_refined.html

PORT of Vancouver		PETROLEUM CARGO SUMMARY BY YEAR, FOREIGN/DOMESTIC AND DIRECTION											
		2008 - 2018 in Metric Tonnes											
Type	Direction	Commodity Group	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic	Import	Aviation & Jet Fuel		22,443	10,039	15,717	39	17,768		2,950	769		
Domestic	Import	Diesel & Fuel Oils	6,793	46,194	69,927	38,978	40,906	24,572	38,074	36,789	43,787	22,351	87,654
Domestic	Import	Gasoline	169,443	219,368	166,177	205,758	146,655	107,957	123,169	17,805	43,553	70,647	264,909
Domestic	Import	Kerosene, Distillate & Coke	35,448	6,661	2,051	10,141	31,239	50,321	40,213	29,782	69,373	10,097	186,664
Domestic	Import	Other Petroleum Products										422	668
Domestic	Domestic Import Total		211,684	294,666	248,194	270,594	218,840	200,617	201,456	87,325	157,482	103,517	539,895
Domestic	Export	Aviation & Jet Fuel	51,780	47,288	49,568	38,702	49,528	61,115	68,604	42,767	66,073	45,969	51,570
Domestic	Export	Diesel & Fuel Oils	417,948	423,759	458,813	441,170	523,696	493,911	389,581	391,681	391,817	507,331	827,561
Domestic	Export	Gasoline	744,742	766,551	746,351	692,818	729,435	698,255	754,224	586,644	654,608	630,071	769,357
Domestic	Export	Kerosene, Distillate & Coke	234,519	220,100	218,889	196,510	172,626	182,752	176,867	248,644	225,433	95,910	109,255
Domestic	Export	Other Petroleum Products	5,734	4,533						5,861	22,318	25,442	24,992
Domestic	Domestic Export Total		1,454,723	1,462,231	1,473,621	1,369,200	1,475,286	1,436,033	1,395,138	1,292,053	1,363,372	1,374,424	1,782,736
Domestic Total			1,666,407	1,756,897	1,721,815	1,639,794	1,694,126	1,636,651	1,596,594	1,379,371	1,520,851	1,477,941	2,322,631
Foreign	Import	Aviation & Jet Fuel	758,149	674,998	803,694	685,165	510,007	486,545	592,590	545,347	615,474	646,245	834,179
Foreign	Import	Crude Petroleum					42	18	442	1,148	53	32	684
Foreign	Import	Diesel & Fuel Oils	353,107	48,369	153,484	226,631	99,430	506,316	290,391	280,132	240,297	87,636	228,417
Foreign	Import	Gasoline	1,131,917	1,037,048	981,138	695,730	658,893	742,719	528,212	724,672	686,490	375,306	772,799
Foreign	Import	Kerosene, Distillate & Coke	538,615	74,899	287,194	455,068	428,312	511,437	224,068	143,185	213,977	81,671	172,506
Foreign	Import	Other Petroleum Products	31,342	2,371	4,848	1,061	1,815	2,236	4,586	5,195	4,365	8,424	16,514
Foreign	Foreign Import Total		2,813,131	1,837,683	2,230,357	2,063,655	1,698,500	2,249,270	1,640,289	1,699,680	1,760,655	1,199,314	2,025,099
Foreign	Export	Aviation & Jet Fuel	27,629	68,774	80,537	49,204	47,019	18,803	11,613	22,999	7,519	5,906	25,263
Foreign	Export	Crude Petroleum	2,208,348	3,916,333	4,247,886	2,398,315	3,244,729	3,078,950	2,917,336	1,964,997	1,185,289	1,767,672	2,959,696
Foreign	Export	Diesel & Fuel Oils	147,583	135,073	131,835	136,396	168,166	261,453	424,000	363,715	593,593	573,527	574,739
Foreign	Export	Gasoline	71,603	197,149	216,866	296,554	365,708	392,313	446,959	510,742	752,626	649,532	188,318
Foreign	Export	Kerosene, Distillate & Coke	131,339	420,555	204,393	95,624	239,279	183,093	329,282	534,331	571,282	633,031	346,103
Foreign	Export	Other Petroleum Products	104,069	7,296	5,436	1,868	1,129	834	697	245	549	26,339	1,872
Foreign	Foreign Export Total		2,690,572	4,745,180	4,886,952	2,977,962	4,066,030	3,935,446	4,129,887	3,397,030	3,110,858	3,656,007	4,095,991
Foreign Total			5,503,703	6,582,863	7,117,303	5,041,617	5,764,531	6,184,711	5,770,171	5,096,711	4,871,511	4,855,321	6,121,091

Monthly data from 2008 – 2019 is provided in the attachment panel of this submission as requested.