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NEW YORK/HOUSTON | BY DAVID SHEPPARD AND BRUCE NICHOLS

A drilling rig in the Eagle Ford Shale in South Texas is seen in this Petrohawk Energy Corporation handout photograph released to Reuters on July 14, 2011.
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On paper, it's the kind of arbitrage deal that oil traders dream of: buy crude at $85 a barrel in Oklahoma, truck it 550 miles south, and sell it to a Gulf coast refiner for $110.

In practice, the crude trucking trade - a measure of last resort as pipelines, trains and barges are maxed out -- has proved tantalizing but elusive. Just ask Robert "Bo" Collins, the former NYMEX president and hedge fund manager, or the teams at global energy trading titans Mercuria and Vitol.

Collins, who presided over the home of the benchmark U.S. oil futures contract a decade ago, has tried in vain to organize a fleet of trucks to haul crude out of Cushing, Oklahoma, down to the U.S. Gulf Coast, where he could sell it for $25 a barrel more.

An in-depth investigation by Reuters shows the trucking arbitrage that has had traders buzzing from London to Houston remains, for now, just speculation. Talk that 10,000 barrels per day (bpd) or some 50 trucks are plying the 12-hour route is unfounded, according to interviews with over a dozen sources.

While the unprecedented discount of benchmark U.S. crude prices, delivered into the Cushing storage hub, relative to European Brent, the prevailing price for U.S. refiners on the coast, has triggered a surge in river and railway transit, the trucking option has been a bust.

The failure of veteran traders to capitalize on a seemingly glaring opportunity is all about logistics, not economics.

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While the overall trucking sector remains depressed, there's an acute shortage of the tankers and qualified drivers needed to haul crude; most that are available have been quickly locked into remote shale oil fields in Eagle Ford, Texas, and the Bakken of North Dakota, where the trucks are essential to get oil from the well-head to nearby pipelines.

Even so, the active exploration by traders of the long-haul shipment of crude by tanker truck -- a means of transportation that hasn't been used extensively in the oil sector in decades -- demonstrates the extent to which the massive distortion in the U.S. oil market has upended trading patterns.

As a glut of crude from Canadian oil sands depresses prices in the Midwest, producers and trading companies hoping to push their oil to the premium-priced import hubs on the coast have already tapped alternatives like rail and river barges this year due to a lack of southbound pipelines.

Historically, imported crude moved north from the Gulf Coast into the Midwest, but the influx of Canadian oil production has changed the game for the United States.

Trucking is the most extreme option for would-be arbitrageurs aiming to reverse that flow.

"You don't truck if you can rail and you don't rail if you can pipeline," the CEO of Canadian pipeline firm Enbridge, Patrick D. Daniel, told Reuters last week.

But the potential profits are too tempting not to try. London-based Brent and U.S. crude, often referred to as WTI (West Texas Intermediate), have normally traded within a dollar of each other, but this year Brent's premium has blown out to more than $25 a barrel.

However, some two dozen trucking firms and traders contacted by Reuters presented little evidence to suggest that any company has managed to make it work on a major scale yet.

Truckers are revving up, but for the shale industry, not the long-haul game.

"The Brent-WTI spread arbitrage opportunity may certainly tempt a few to evaluate investing in trucking oil out of Cushing," said Collins, who went on to run two unsuccessful hedge funds after leaving the NYMEX in 2004.

"But I believe close examination of the operational challenges would deter any new major activity."

He said he had shelved the project for now.

SHALE THE REAL BOOM FOR TRUCKERS

Estimates for the normal cost of hiring a tanker truck to drive the Oklahoma to Gulf roundtrip vary widely from $7 to $19 a barrel, or roughly $1,300 to $3,500 a truck.

One tanker operator broke down his estimated costs like this: two drivers at an average salary of $22 an hour each adds up to more than $1,000 in wages alone; another $700 for diesel fuel at $3.75 a gallon; a further $500 for the truck lease, insurance, maintenance and depreciation costs. About $2,300 before a dime of profit.

But assuming a $25 price spread on 185 barrels, there could still be money to be made on an arb of $4,600 per trip.

It's not that the tanker industry wouldn't love the trade. But it is simply stretched to the gills after a recession-induced collapse in business was followed by the biggest surge in demand the industry has ever experienced.

The tanker business has already rebounded to pre-recession levels, according to American Trucking Association data, thanks to the biggest boom in the U.S. oil business since the deepwater Gulf of Mexico.

The production of shale or 'tight' oil in the United States has soared from almost nothing to around 700,000 bpd in just three years as new drilling techniques and fracking technology opened up frontier reservoirs. It could hit 2 million bpd within five years, according to some in the industry.

Much of it is in previously undeveloped regions like southwest Texas and North Dakota, far from existing pipelines, meaning trucks are the best means of getting crude from sometimes remote wells to market distribution points.

Deliveries of crude to refineries by truck last year reached nearly 200,000 bpd, the highest since 1993, according to Energy Information Administration data. Volumes are up nearly 50 percent from seven years ago.

"There is a huge demand for trucks right now. If they could convert an ice cream truck to haul crude they would," said George Jordan, the chief operating officer of Central Crude in Louisiana. The firm is expanding next month from two to 10 trucks in Eagle Ford -- a rich new shale play in southwest Texas -- and may double that again within 18 months.

Demand is so high that Central Crude can make between 50 to 100 percent more per truckload of crude they haul in Texas than they do in Louisiana, with fees as high as $5 a barrel, said Joe Milazzo, its vice president of crude supply.

That works out at almost $1,000 for every short-haul truck journey from wellhead to storage terminals or pipelines, which they can do several times a day. Eventually a new network of pipelines being built across Eagle Ford will reduce demand for the tankers, but that will take at least another two years.

"There will be pressure on trucking margins in Eagle Ford as infrastructure improves in the future, but there are so many small wells being drilled that are too insignificant to be connected to a pipeline that there will always be demand for trucks," Milazzo said. "We're in it for the long haul."

Schneider National, one of the largest trucking firms in the United States, is hiring 300 more drivers to help meet booming demand from shale producers alone.

There are 27,000 registered interstate tanker trucks in the United States, according to the Department of Transportation, enough to haul almost 5 million barrels of oil. But the majority are dedicated to shipping refined products rather than crude oil regionally to gas stations.

Driver salaries are also rising. Although employment in the trucking sector fell 14 percent to the lowest level in over a decade following the recession, there are not enough drivers with the requisite Hazardous Materials (Hazmat) trucking license to meet demand, industry sources said.

Milazzo estimated that driving from Cushing to the Gulf would be at least at 20-hour round trip, requiring two drivers, sleeping cabs, and an empty tanker on the route back. Salaries would be higher still as drivers would be away from home for at least one night.

Additionally, trucking industry sources said truck and trailer manufacturers are already struggling to meet demand, with an 8-12 month wait time for new vehicles.

New sales of heavy trucks slumped by two-thirds after the onset of the recession, axing capacity.

Tanker firms would require long-term commitments from traders to lure them away from the shale industry, commitments they're unlikely to get, said Bradley Olsen, an analyst at investment bank Tudor, Pickering, Holt & Co in Houston, Texas, which advises the energy industry.

"There's a large opportunity cost for the truckers to think about," said Olsen, adding some companies may be making more than $10 per short-haul trip in Eagle Ford.

"No one is convinced about how long the (Brent-WTI) spread might last. It could be gone in a year. Are you going to leave lease hauling (shale crude) and possibly lose customers?"

Pipeline companies are also eyeing the opportunity a plan links from Cushing to the Gulf Coast within two or three years, which would render the hassle and investment of trucking the same route unprofitable.

Having spoken to almost every major mid-stream companies in the region, Olsen found none were trucking in bulk.

"Cushing cannot load 100,000 bpd of trucks at 200 barrels a time. There is no real way to deploy it on a large scale."

ARE TRUCKS MOVING?

No hard data exists on how much may be moving. Tanker loads would be easy to miss -- or confuse with local haulers -- on heavily traveled routes across Oklahoma, Texas and Louisiana.

Terry Brannon, the chief of police in Cushing, Oklahoma, said the level of truck traffic in and around Cushing does not appear to have changed. "We see the normal flow of trucks," he said.

Even so, analysts have already factored small but tangible volumes being hauled south. Barclays Capital and Goldman Sachs estimate around 5,000 to 10,000 barrels per day (bpd) are moving by truck from Cushing to the Gulf. This would require at least 25-55 trucks making the 1,000 mile round trip daily.

Identifying those behind the trade is far trickier.

Oklahoma-based Blueknight Energy Partners, co-owned by commodities trading giant Vitol and one of the largest trucking and storage operators in the Midcontinent oil patch, seems a likely candidate given its 6.7 million barrels of storage at Cushing and 170 crude oil transport trucks.

But while it has sometimes trucked Cushing crude to higher priced markets or distribution terminals linked to the Gulf, it hasn't made it all the way to the coast, a senior source with knowledge of Blueknight's operations told Reuters.

Blueknight and Vitol did not respond to inquiries.

Two industry sources also pointed to 4K Fuel Supply in Houston, Texas, which moves refined oil products short distances by truck in the Houston area. But the firm told Reuters it had not moved into trucking crude.

Industry sources also highlighted Swiss-based energy trader Mercuria, which owns storage space and tank racks at the Cushing storage hub. But the available evidence indicated Mercuria was only moving crude 30 miles by truck to a rail siding in Stroud, Oklahoma.

Premier Trading & Transportation is running three to five trucks for Mercuria from the Deeprock Energy Resources LLC terminal at Cushing to Stroud, sometimes making the

60-mile roundtrip four or five times a day, said Randy Collum, manager of trucking operations. The crude is then railed south.

"We had to lay extra pipelines and different meters at Cushing (to load the crude into the trucks)," Collum said. "It works for now. The price difference between crude on the Gulf Coast and the price in Cushing is driving it. It's profitable or we wouldn't do it," Collum said.

Mercuria spokesman Patrick Prendergast said rail and barge were "a better logistical fit for the longer distance moves at this time," adding Mercuria was unaware of any barrels being trucked direct from Cushing to the Gulf Coast.

Other estimates are far lower than those provided by the banks. One operations officer at a major logistics firm in the Midwest, who asked not to be identified, said he was aware of a small number of barrels moving by truck, but estimated it at less than 1,000 bpd.

He declined to give the names of the firms citing client confidentiality, but said they were small, local, independent traders.

So the spread remains just that -- tempting, but out of reach.

"In theory it can be done. You can make money, it would be great to do this," said Jordan at Central Crude. "But for the moment all our trucks are tied up elsewhere, and it's a risky proposition knowing how fast that spread can move."

(Reporting by David Sheppard and Bruce Nichols; additional reporting by Christopher Henwood; editing by Jonathan Leff and David Gregorio)

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