Recent Developments in EU Refining and in the Supply and Trade of Petroleum Products

Fifth Meeting of the EU Refining Forum

Brussels, 15 June 2015

International Energy Agency

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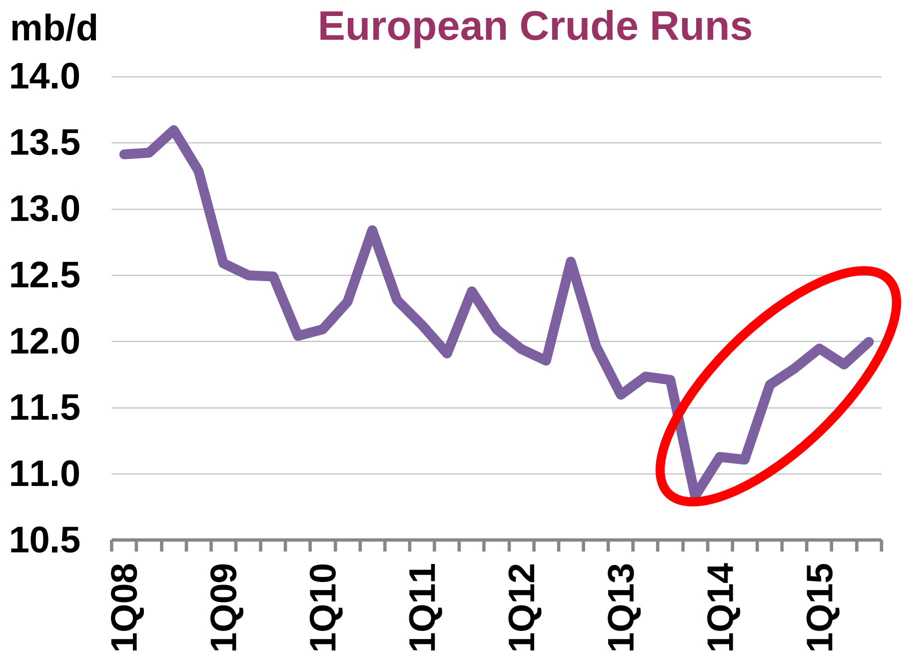
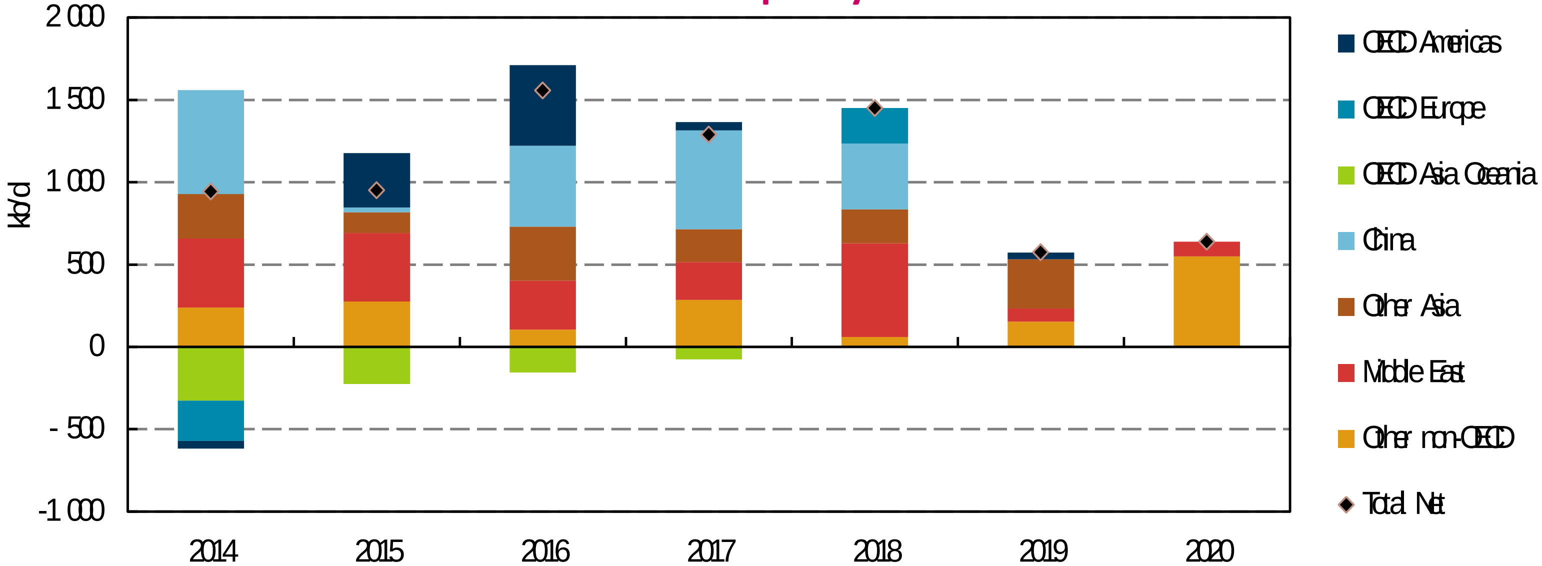
Rebound in European refinery activity: Temporary reprieve or new Golden Age?



- OECD refinery runs reversed trends mid-2014
- Europe leads recovery - runs up 1 mb/d y-o-y in 1H15
- Unexpected margin & demand strength (OECD & non-OECD)
- Utilization rates reach 84% in April 2015 vs 76% in March 2014

Lingering threat of over-capacity

Global crude distillation capacity additions



- New capacity of 6.4 mb/d by 2020
- Led by non-OECD Asia, Middle East
- Scaled back since oil price drop
  - Chinese projects stalling, new closures
- New product bypassing refining system
- Surplus capacity still seen up to 5 mb/d in 2020, from 6-yr low ~3 mb/d in 2014

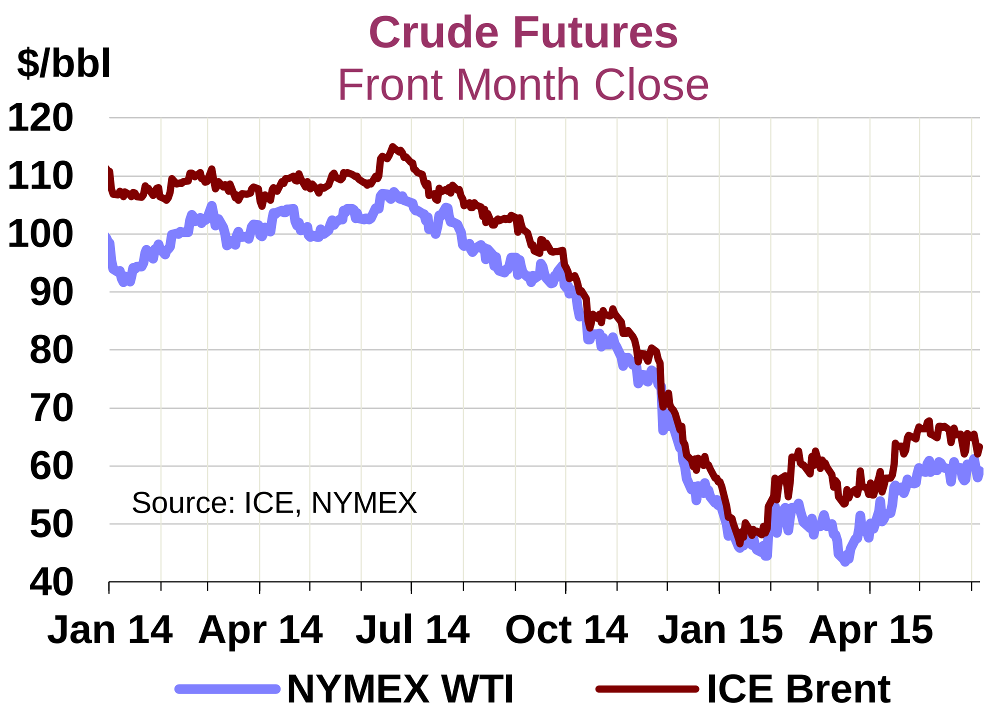
EU as “sick man” of refining industry

- Falling regional demand
- High energy & labour costs
- Ageing, fragmented industry
  - Only one European refinery > 400 kb/d (Shell Pernis)
  - Vs. 10 in Asia, 8 in N. America, 5 in the Middle East
- Disadvantaged feedstock costs
- Heavy regulatory burden

Temporary relief

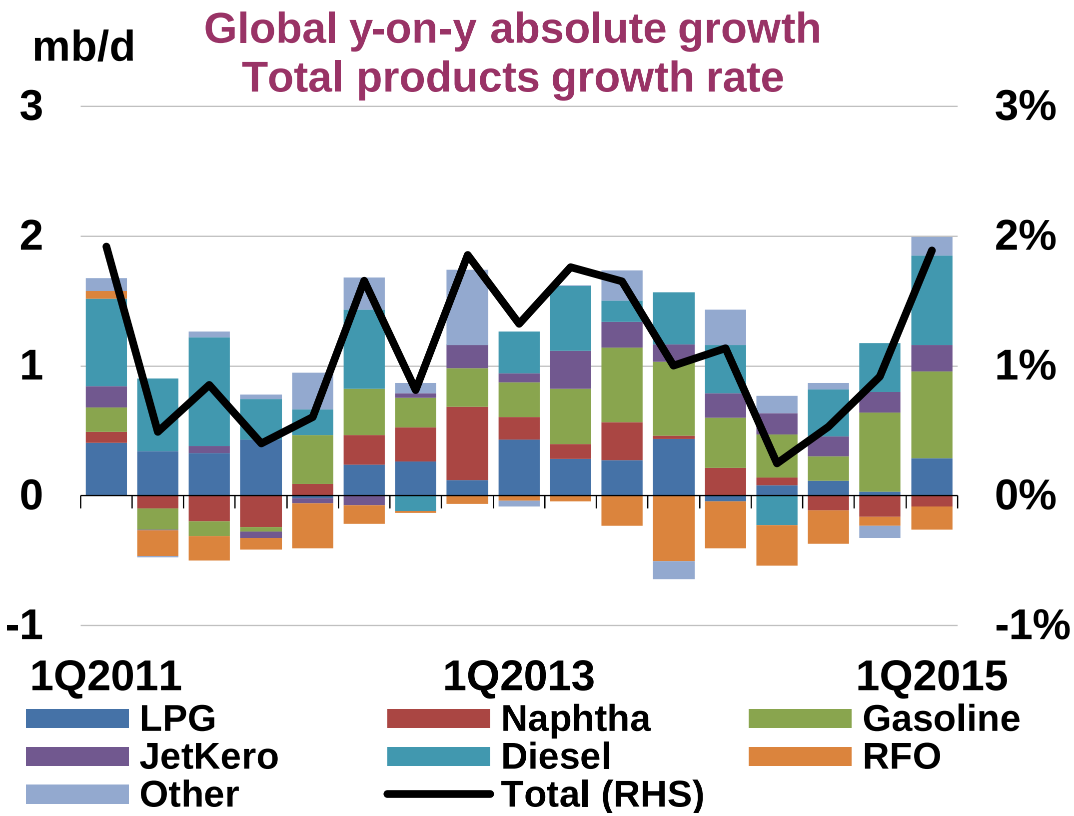
- Higher demand
  - Price response
  - Cold winter
  - Economic recovery
- Cost equalisation
  - Narrowing WTI/Brent spread
  - Narrowing natural gas cost differential
- Delays in non-OECD capacity startups

Price reset



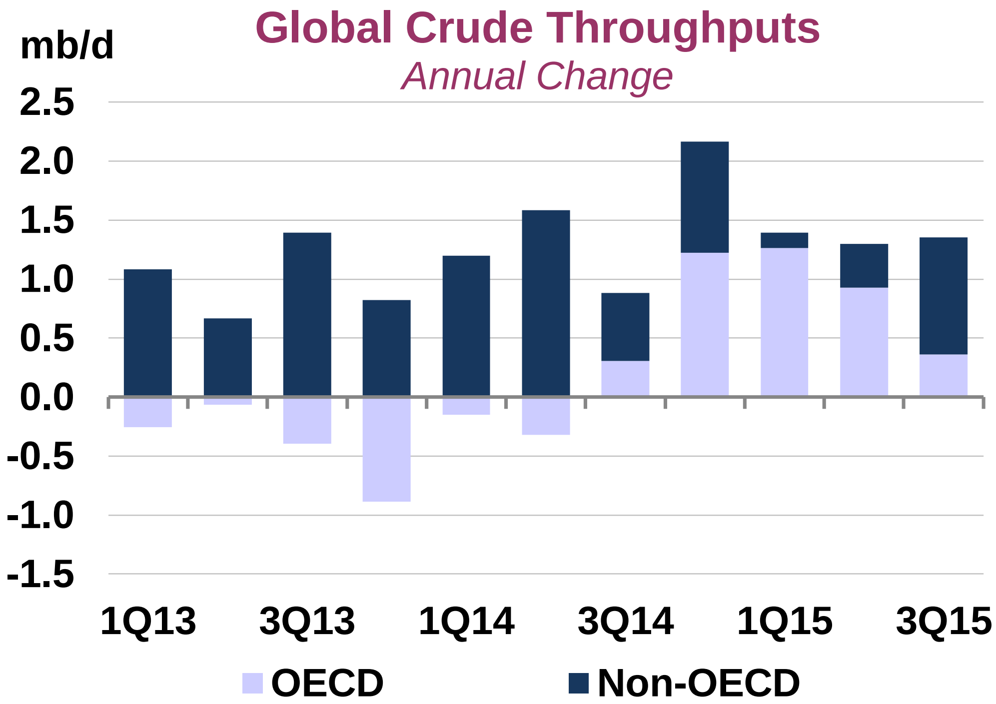
- 60% drop in crude oil prices June 2014 - January 2015
- From backwardation to contango
- Slowing US LTO supplies, Atlantic surplus lift NYMEX WTI more than Brent (WTI-Brent narrowed to $4/bbl)

Demand rebound



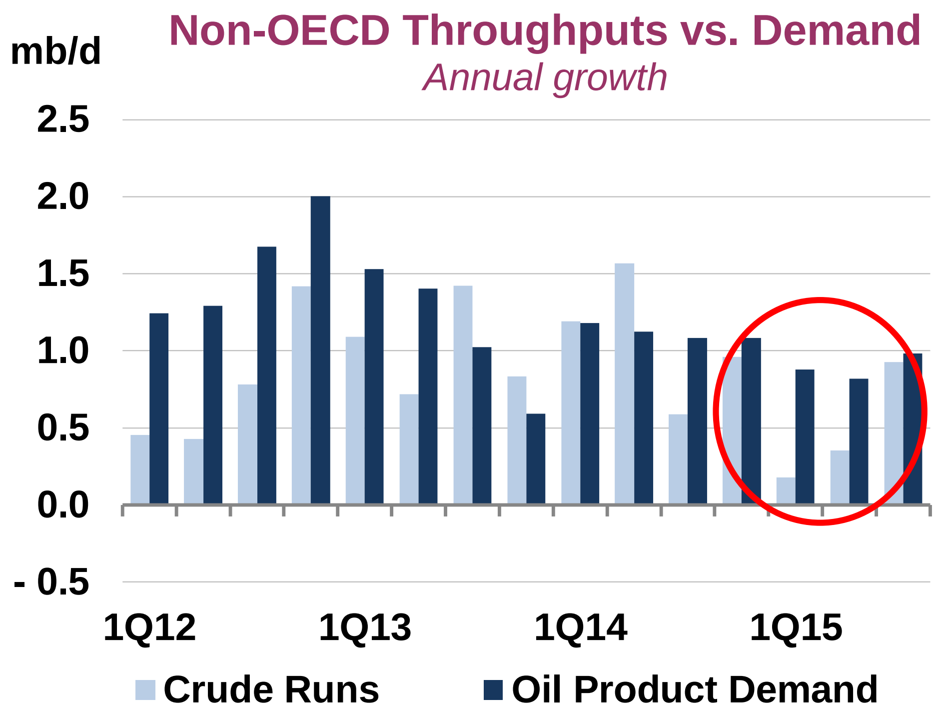
- First time annual demand growth > 2 mb/d since 2010

Non-OECD startup delays



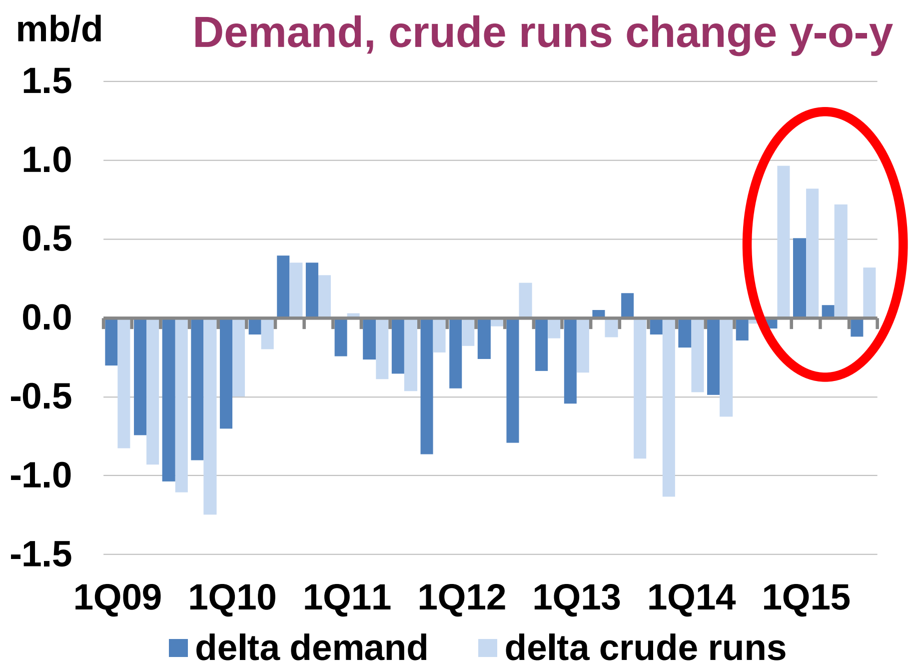
- 1.5 mb/d aggregated delays
- Saudi Arabia (Yanbu), UAE (Ruwais), India (Paradip), Brazil (Abreu e Lima), Colombia (Cartagena expansion)

Non-OECD capacity fails to keep up with demand



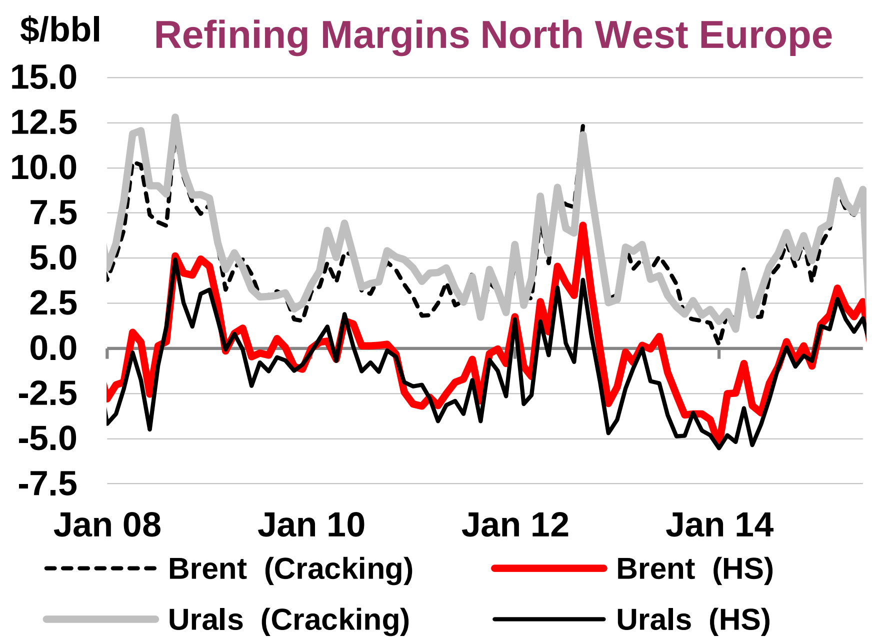
- Global re… for each of the first …
- However, non-OECD refiners fail to meet demand as new refineries slow to start up – providing support to OECD and entire oil complex
- While OECD – essentially Europe – was responsible for most of growth so far this year, non-OECD to take over in 3Q

European refiners pick up the slack as runs grow faster than regional demand



- Demand up by 0.5 mbd in 1Q15 y-o-y, reversing earlier drops
- European throughputs fall faster than demand in 2014…
- …but rebound faster than demand in 2015

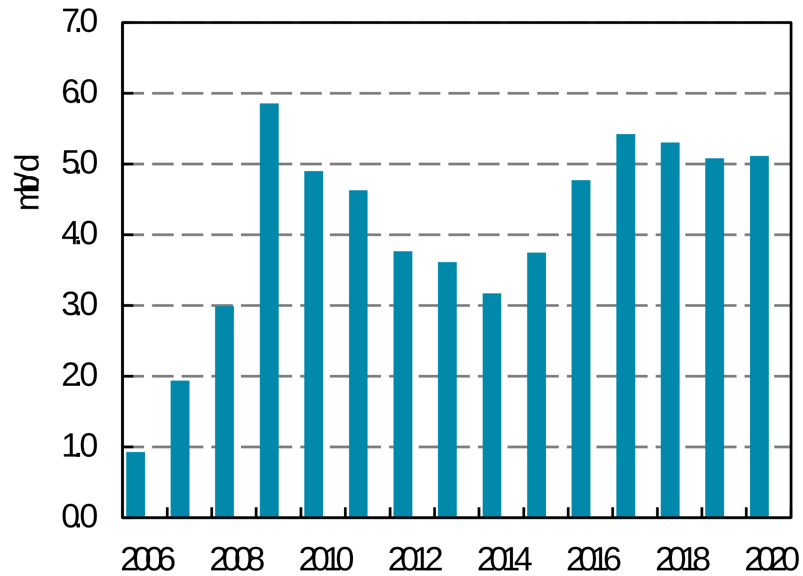
European refinery margins pick up lifted by gasoline cracks



- NWE simple margins turned clearly positive in 2015, though runs had increased already from mid-2014
- NWE cracking margins reach levels unseen since early 2012

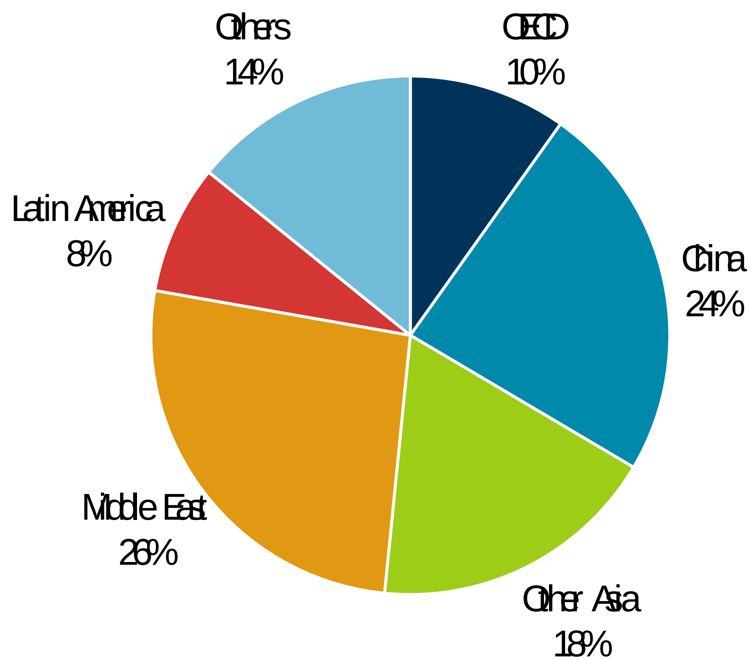
2014-1H15 to be a low in surplus capacity

Global surplus refinery capacity



- Surplus global refining capacity hit 6-year low ~3 mb in 2014 as OECD refinery closures offset new non-OECD capacity
- Refinery margins gets significant boost from mid-year
- New capacity puts system under renewed pressure from 2015 onward

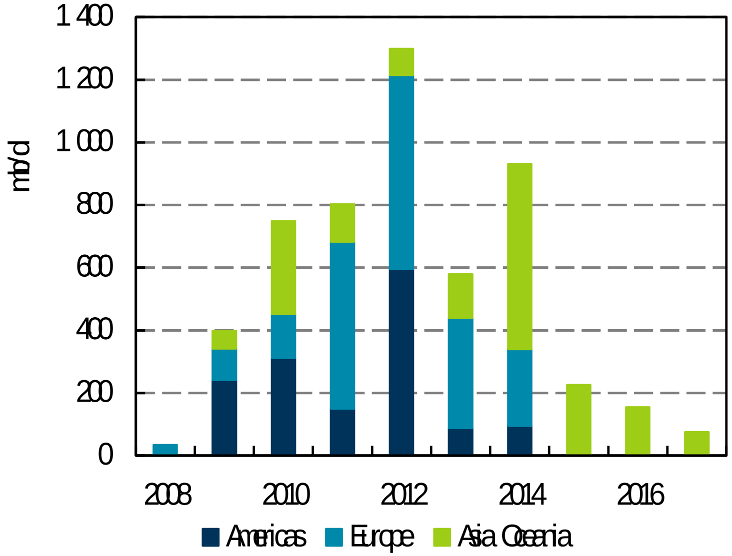
Non-OECD accounts for 90% of refining capacity growth



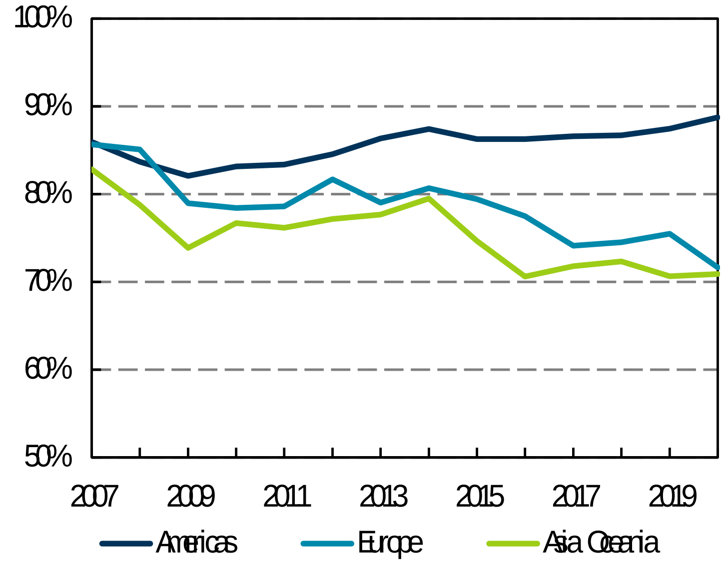
- Non-OECD Asia adds 42% of total, or 2.7 mb/d of crude distillation capacity
- Middle East expands capacity by a further 1.7 mb/d, taking total capacity to 10.3 mb/d at the end of the decade

More OECD closures in the cards

OECD refinery closures



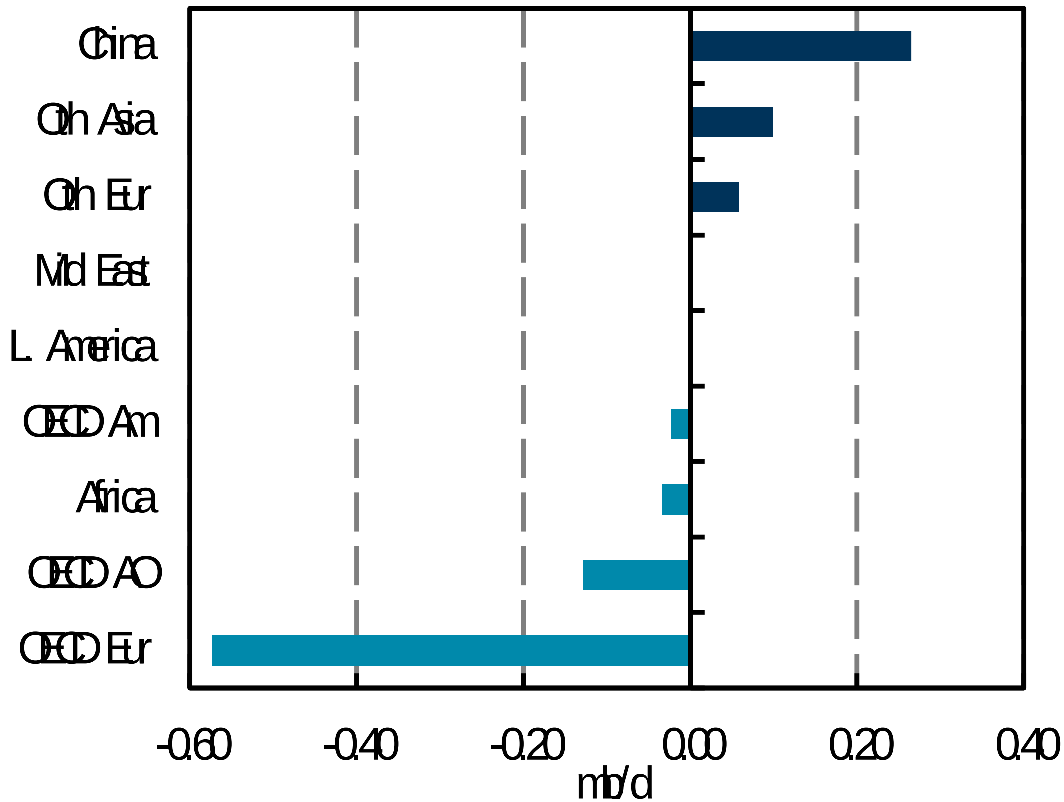
OECD refinery utilisation rates



- Refinery utilisation up to 84% in April 2015
- Total of 4.8 mb/d of capacity shut in OECD since 2008
- Additional 450 kb/d announced in Asia Oceania through 2017
- More shutdowns likely to be announced
  - Total to cut 263 kbd of capacity (closure of La Mede, trims Lindsey capacity by 110 kbd)

Russia's "pivot to Asia"

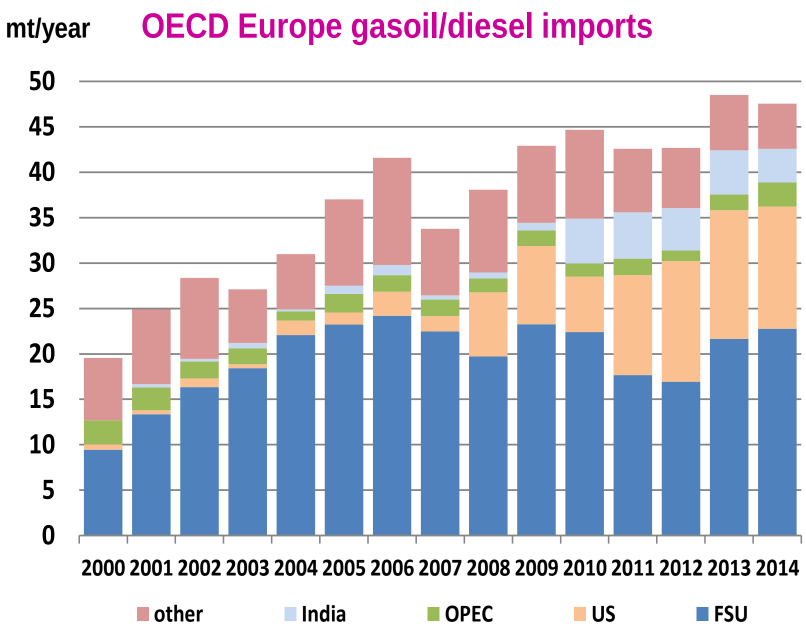
FSU export growth, 2014-20

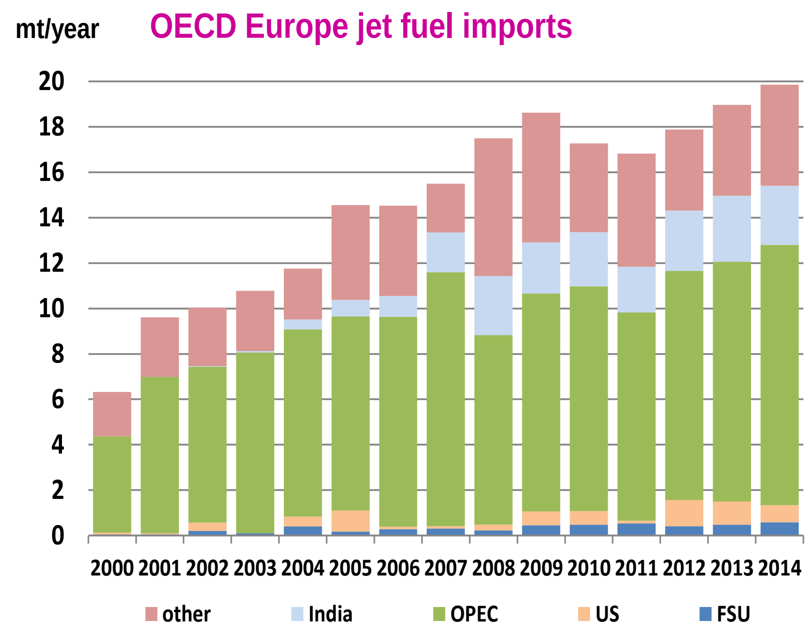


Rosneft supply deals with CNPC, Sinopec, Essar, PetroVietnam

European middle-distillates imports stabilize

Increasing volumes coming from US, India… and Middle East?





- European gasoil imports stabilizing ~ 47 mt/yr since 2013, jet imports are reaching 20 mt/yr
- Middle East OPEC is top jet fuel supplier
- FSU ~ 1/2 of diesel imports, followed by U.S. (25-30%) and India (~10%)
- Middle East to ship more middle distillates to Europe as new refineries ramp up?

Trouble ahead?

- European demand strength expected to be short-lived
  - Opportunistic buying post-price drop may be losing steam
  - Weather wildcard
  - Efficiency gains
  - Mature, ageing market
  - Tepid economic growth
- Respite of non-OECD import demand also temporary
  - New capacity to be eventually brought on line
  - China shifts gears, lowers demand growth rate
- Longer-term climate policies dampen prospects for oil in fuel mix as fuel mix evolves
- Global product trade to loom larger in European supply

Thank you

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