

EU Refining and International Competition: A Final Golden Run?

Fourth Meeting of the EU Refining Forum
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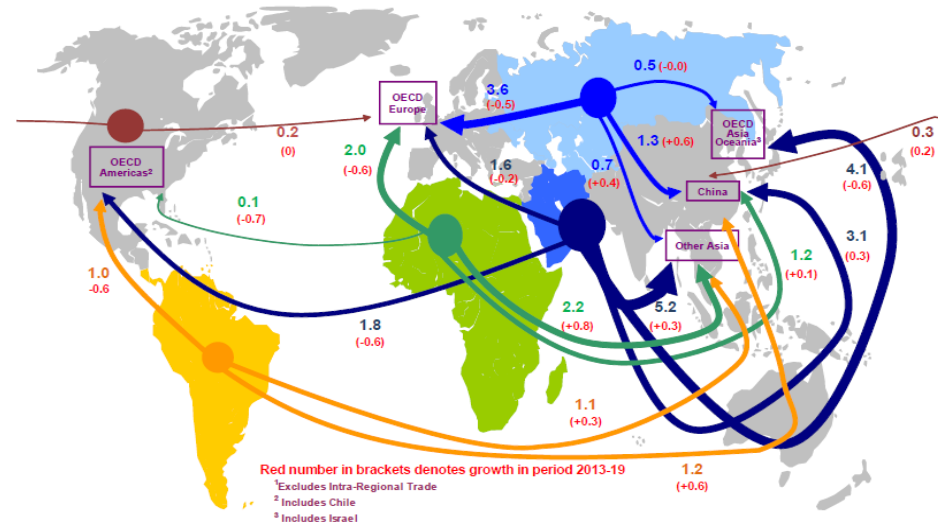
Lower Crude Prices Boon For Refiners Worldwide

Brent Crude Oil Spot Price (jun 14 – nov 14)



Source: Thomson Reuters

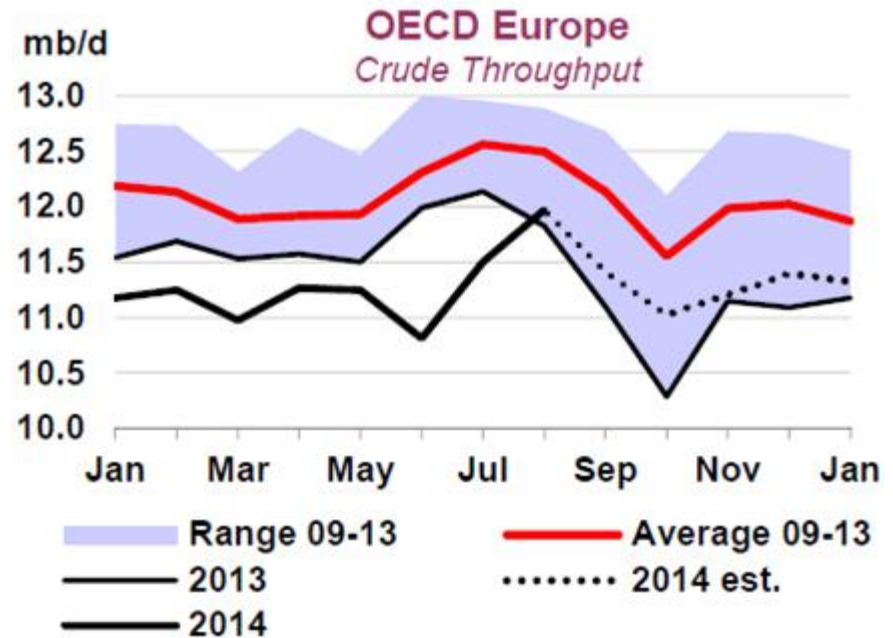
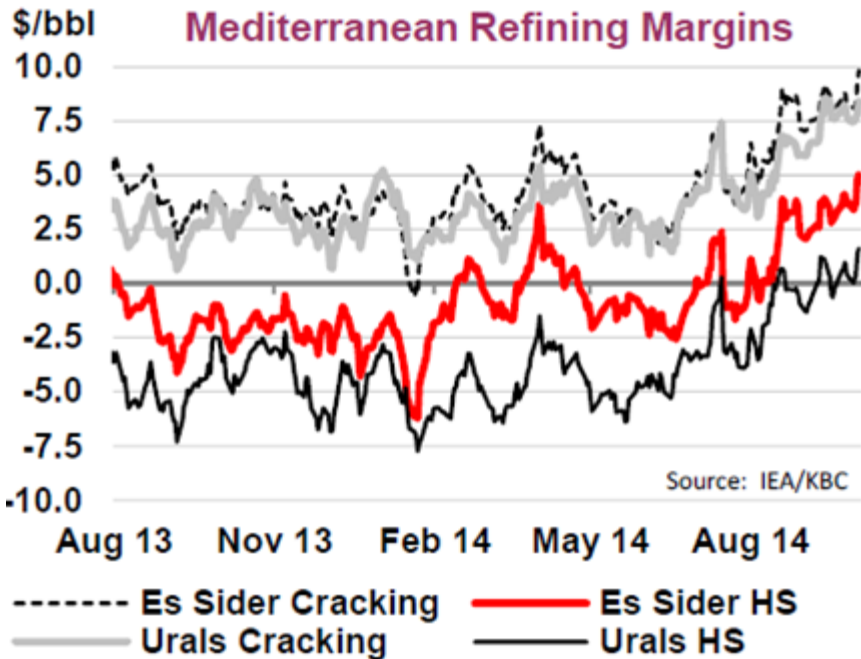
Growth in 2013-19 Key Trade Routes for Crude Oil



Source: IEA

- Crude price declines due to robust supply and lacklustre demand
- Product markets relatively tight, supporting margins
- Oil trade map changing; EU refiners draw in more WAF as a result of US shale boom

High European Refining Margins Unseen Since 2012

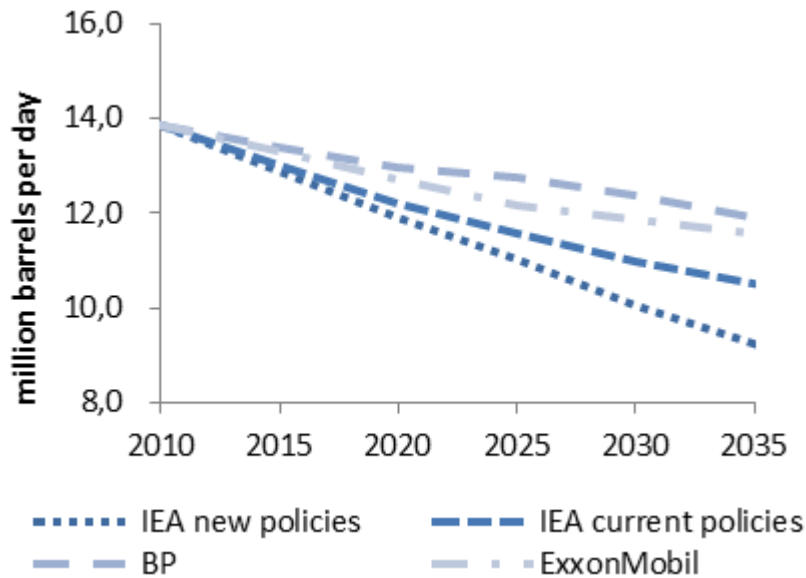


Source: IEA

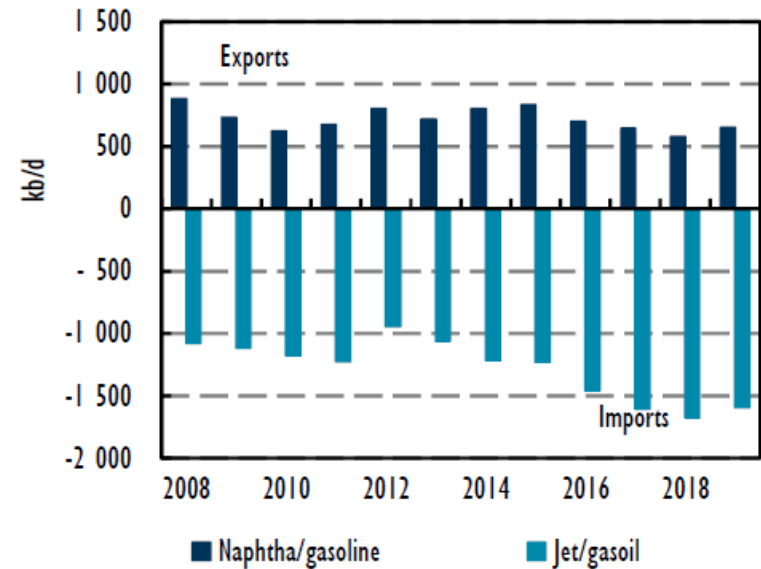
- High Margins Lead to Higher Throughputs (12 Mb/d), NWE and Mediterranean
- Germany + 200,000, Spain: + 100,000 bpd, Italy: + 70,000 bpd

However; Declining Oil Demand in Europe Exacerbates Overcapacity...

Oil Demand in Europe



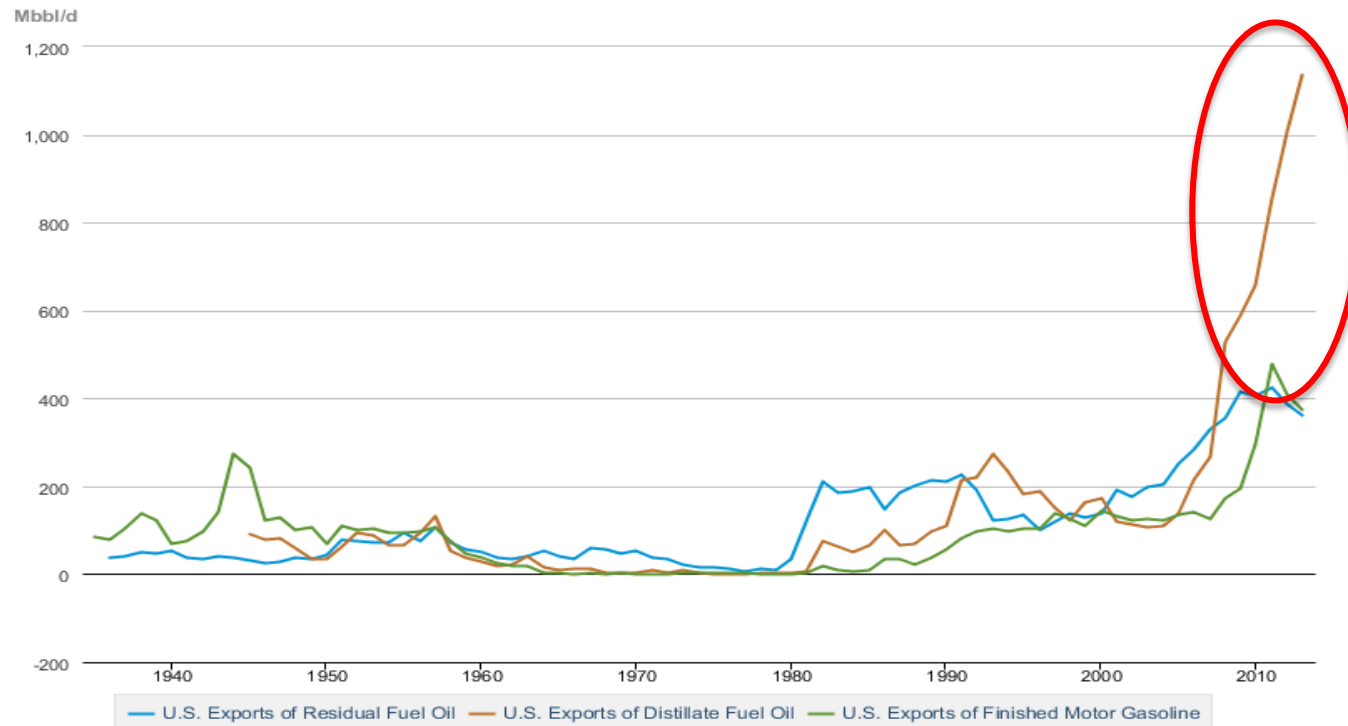
Europe's Key Product Balances



Source: IEA, CIEP

- Peak demand in OECD? US uncertain, Europe likely: mature economy, aging population
- Since 2008, about 2 Mb/d of refining capacity in Europe closed, more to follow
- Middle distillate deficit will increase to 1.6 Mb/d by 2019

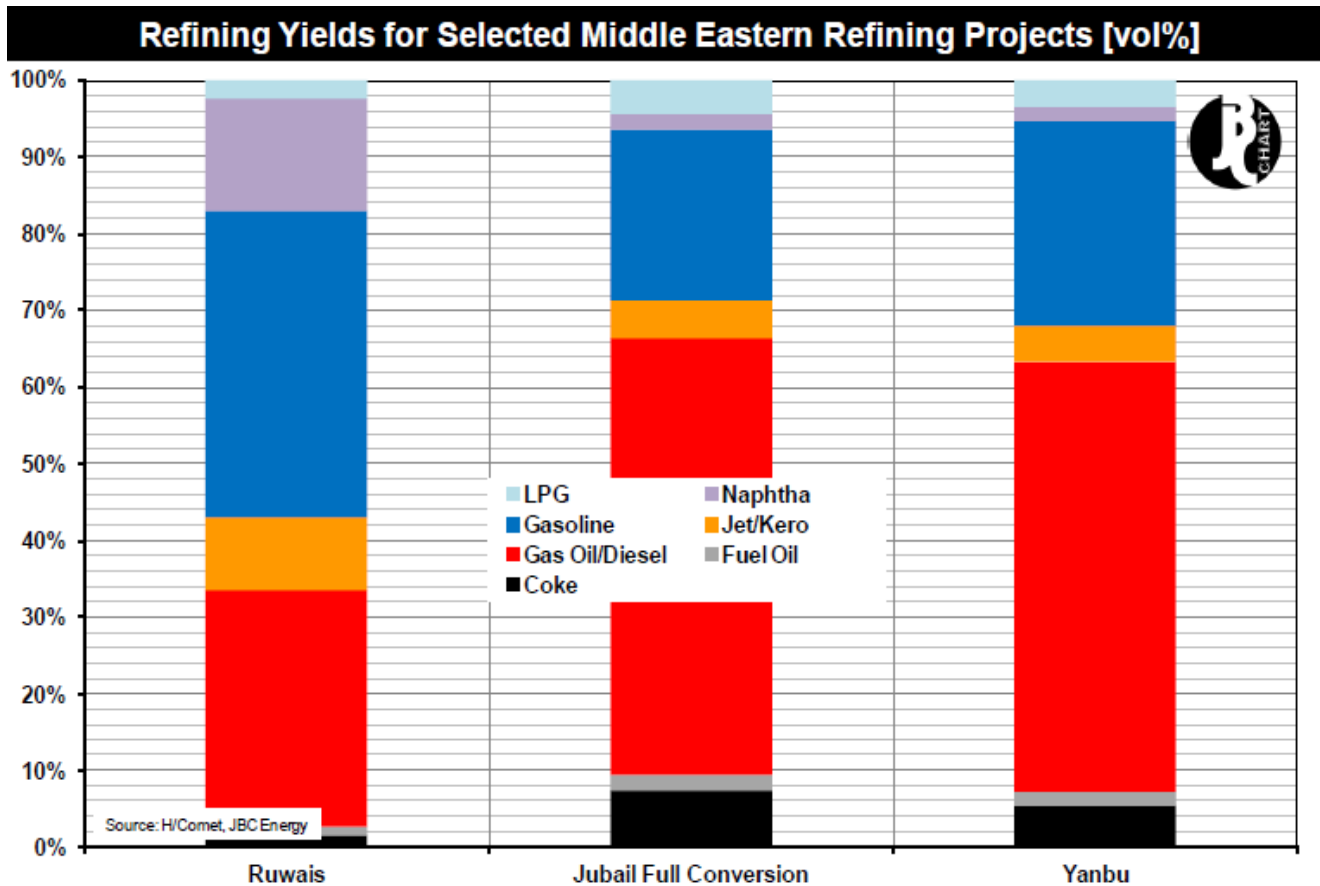
.. And International Competition is Tightening the Noose: US



Source: EIA

- US refineries benefiting from cheap shale crude and gas (Eagle Ford, Marcellus)
- Integration in oil markets through refining window due to crude export ban
- Record volumes of ULSD to Europe, gasoline to Latin America and West Africa
→ traditional EU markets for surplus gasoline...

International Competition Tightening Noose: Middle East

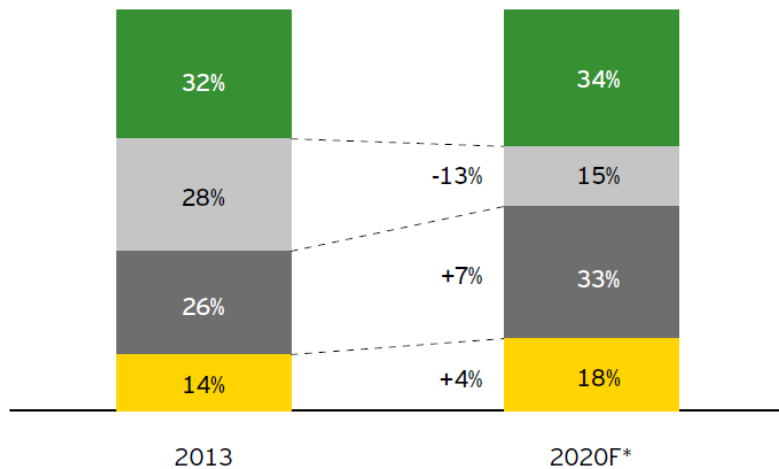


Source: JBC

- New capacity will raise exports from Middle East by close to 1 Mb/d
- Ruwais: 420,000 bpd, Jubail & Yanbu: 400,000 bpd each
- Maximization of diesel production although stronger demand growth for gasoline, jet fuel

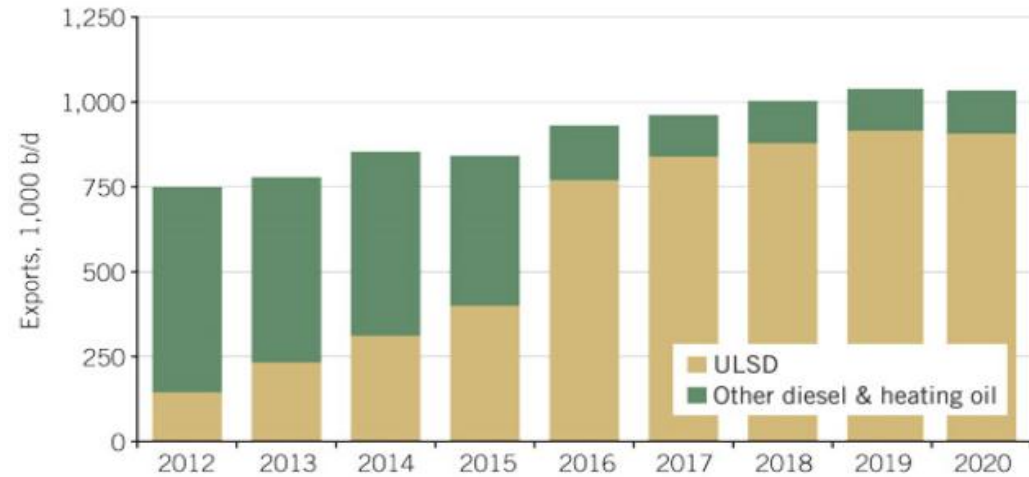
International Competition Tightening Noose: Russia

Refinery upgrades and changing yield of barrel



Source: EY

Share of ULSD in diesel production rising by 2020

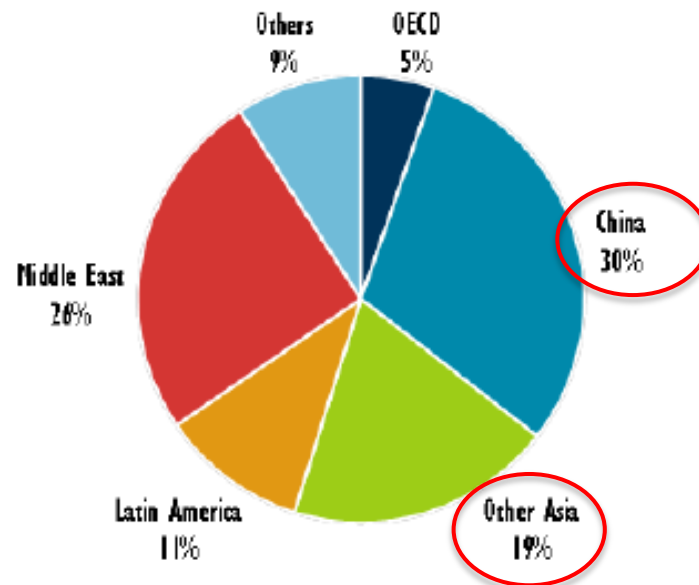


Source: ESAI

- Export tax regime changes incentivize production and export of ULSD > fuel oil
- Crude exports to Asia prioritized, Urals Blend as feedstock losing discount

International Competition Tightening Noose: Asia

CDU Expansions 2013-19 by Region



Source: IEA

- Asia accounts for half of new refining capacity by end of decade
- Chinese demand for gasoline taking over diesel growth → exports likely?

Conclusions

- Crude trade market contracting, oil product market globalizing
- Global refining overcapacity will increase competition and EU overcapacity
- Diesel exports from US, Middle East and Russia to EU on the rise: last leg of EU refining competitiveness undercut?
- Asia responsible for half of the additional refining capacity; India becoming oil product exporting powerhouse



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Thank you!