

Weber Refinery Report



August 2020



In this month's Charles R. Weber refinery report, we provide readers with the latest developments in the refinery sector as they relate to the seaborne refined product trade and refined product tanker shipping. The report mixes up-to-date news with detailed information about global refinery capacity and seaborne trade in order to understand how seaborne trade patterns and product tanker profitability will develop, in both the short and medium term.



US Product export growth weakens in 2Q20 - Aug 2020

The utilisation of product vessels in the USGulf, defined as the percentage underway, has been more resilient than in some regions with 33% utilisation in 2Q20, the same as in 2Q19. However, there was a 12% Yoy drop in active tonnage (sailing, waiting and in port) in the region, perhaps presaging a decrease in export performance in 2Q20, with exports having expanded by 4% in 1Q20 Yoy according to Customs statistics.

In contrast to the USGulf, the number of product tankers in the Middle East has remained stable. However, here utilisation (the average number of vessels underway) in 2Q20 fell from 53% to 47% Yoy, while vessels waiting increased from 32% to 37%.

Customs data indicates a 18% decline in Saudi Arabia product exports in 1Q20 Yoy. Looking at vessel movement data, we observed a 26% 1Q20 Yoy decline in activity, followed by a 17% 2Q20 Yoy fall suggesting that Saudi exports recovered little last quarter.

In China, the level of activity, particularly in the dominant MR sector, dipped sharply through 1Q20. However, by June, the number of MR vessels in the region had recovered to a more normal density. In terms of waiting, we observed a 7% decline across all product tanker activity during 1Q20 Yoy and this was matched by a 6% fall in 1H20 Yoy.



Brooge hydrotesting Phase II storage at Fujairah - Aug 2020

Brooge Petroleum & Gas is hydrotesting its eight-tank Phase II storage expansion in Fujairah, which on completion will increase the company's total oil storage capacity from its current 2.5MnBbls to 6.3MnBbls.

A planned Phase III expansion, which would bring total storage capacity for crude oil, fuel oil and clean products up to 28.3MnBbls, is being built in conjunction with a planned 180kbd (9Mnta) refinery.



RAPID project restart delayed until 2021 - Jul 2020

Malaysia's RAPID project in Pengerang plans to delay the restart its fire-hit refinery in the southern state of Johor to early 2021, due to economic reasons. The restart had been scheduled for September, with full commercial operations targeted for late 2020.

Latest

If you have questions or comments, please contact Charles R. Weber Research.

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1 **Marathon continues to restructure refinery business** - Aug 2020 - Marathon Petroleum (MPC) is permanently shuttering crude oil processing at two of its US refineries, the 161kbd (8.05Mnta) Martinez refinery in California and 27kbd (1.35Mnta) Gallup refinery in New Mexico, as a result of the Covid-19 crisis. No details regarding any future plans for the Gallup refinery have been disclosed, but the company is considering converting the Martinez refinery into a renewable diesel plant and terminal facility.

In other news, MPC has confirmed that construction remains ongoing to convert its former 19kbd (0.95Mnta) Dickinson refinery in North Dakota into a 12kbd (0.6Mnta) renewable diesel refinery, still on schedule to be completed in late 2020.

1 **Pilipinas Shell is to convert its Tabangao refinery into an import terminal** - Aug 2020 - Having shut its Tabangao refinery since 24 May, Pilipinas Shell has announced that, as a result of the drop in demand caused by Covid-19, it will convert the facility into an import terminal.

1 **Edo refinery is 70% complete** - Aug 2020 - Edo's 5.5kbd (0.275Mnta) modular refinery located at Ologbo in Ikpoba Okha, Nigeria, is approx. 70% completed, and will soon be ready for commissioning

1 **Oman likely to exit Bina refinery JV** - Jul 2020 - OQ, previously known as the Oman Oil Company (OOC) is considering giving up its stake to Bharat Oman Refineries (BORL) to Bharat Petroleum (BPCL). BPCL currently holds 63.38% in BORL and is gearing up for divestment.

2 **Thai Oil awards contract for Sriracha refinery's clean fuels project** - Jul 2020 - Thai Oil has awarded a contract to McConnell Dowell to provide earthworks and civil works for a Clean Fuel Project (CFP) at its 276kbd (13.8Mnta) Sriracha refinery in Chonburi province, eastern Thailand. Construction is scheduled to be completed in 2021, with start-up in 2023.

1 **Total to sell Lindsey refinery** - Jul 2020 - Total has agreed to sell its UK downstream business, including subsidiary Total Oil Refinery's 109kbd (5.45kbd) Lindsey refinery in North Killinghome, Immingham, and associated logistics assets to Prax Group (also known as State Oil). The transaction is scheduled to close by year end.

1 **Petrobras set to receive offers for Bahia refinery** - Jul 2020 - Petrobras is set to receive binding offers for the country's second-largest refinery, the Landulpho Alves refinery (RLAM) in the northeastern state of Bahia. When the deal is concluded, it will mark a first in the producer's decade-long efforts to end its near-monopoly in refining in Brazil and open one of the top ten fuel markets in the world for private investors. Potential bidders include Mubadala Investment, Sinopec and Essar.

1 **Phillips 66 San Francisco Refinery to switch to renewable production** - Aug 2020 - Phillips 66 is planning to stop production of fuels from crude oil at its San Francisco refinery, and switch to the production of renewable fuels from used cooking oil, fats, greases and soybean oils.

2 **Iraq to sign \$4 Bn Basra refinery contract with JGC** - Jul 2020 - Iraq's government is to sign a contract with JGC Corp to construct a 55kbd (2.625Mnta) plant at its Basra oil refinery, at an approx. cost of \$4 Bn. The facility will produce fuels including LPG, gasoline and gasoil.

3 **Refining New Zealand seeks cost cutting measures** - Jul 2020 - Refining New Zealand plans to recommence processing of crude next month at the nation's sole refinery at Port Marsden, and is now developing plans to simplify operations in an effort to cut costs, though has provided no specifics of the plan.

The company has completed Phase 1 of a strategic review, in light of the low oil price, oversupply of crude in the international market and lack of demand caused by COVID-19 lockdowns. It is also considering a possible transition to become an import terminal of refined products

2 **Irving finalising deal to purchase Come By Chance refinery whilst another suitor waits in the wings** - Jul 2020 - Irving Oil is finalising its deal to purchase North Atlantic Refining's Come By Chance refinery and other assets. The regulatory approval process and due diligence is currently underway. Meanwhile, Origin International is signalling that it's still interested in the facility after failing in the original bidding process.

3 **Motiva makes redundancies** - Aug 2020 - Motiva, which operates the largest U.S. refinery in Port Arthur, plans to lay off 10 percent of its workforce by September in response to the Covid-19-driven crisis.

4 **Ampol to restart Brisbane refinery** - Aug 2020 - Ampol (formerly Caltex Australia) plans to restart production from its Lytton oil refinery in Brisbane in September, following extensive maintenance which started in April. Notwithstanding recent Covid-19 setbacks, fuel demand has been slowly recovering in Australia, although still down 11% YoY in July.

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***Notes:** Mnta = million tonnes per annum, Kbd = 1000 barrels per day*



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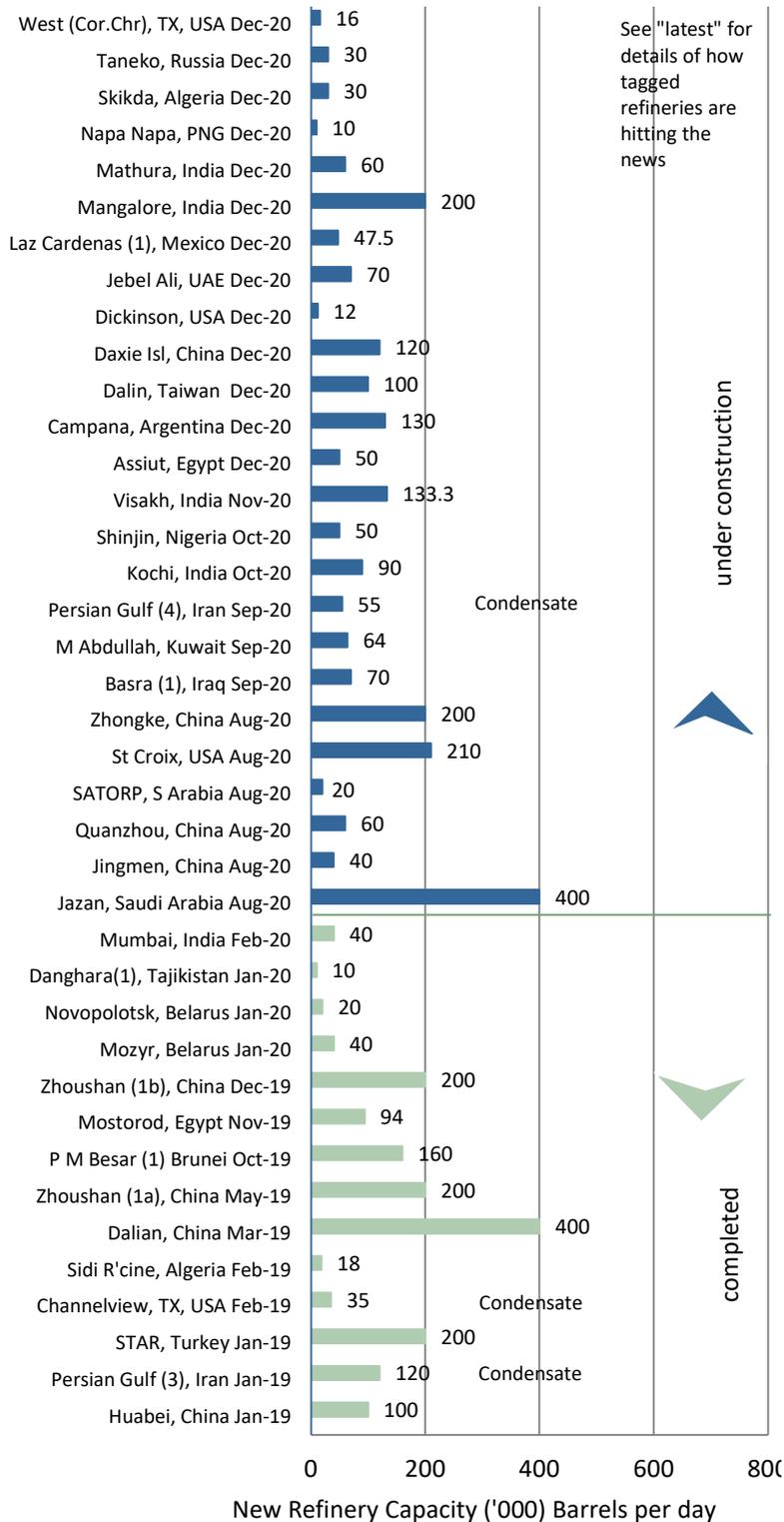
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Timeline

Recent and Planned Refinery Additions



We estimate that net global refinery capacity increased by 1.5Mnbd in 2019. This built on increases of 0.8Mnbd in 2018, 0.7Mnbd in 2017, 0.8Mnbd in 2016, 1.1Mnbd in 2015, 0.9Mnbd in 2014, 1.3Mnbd in 2013 and 1.1Mnbd in 2012 (the latter two numbers are based on BP data).

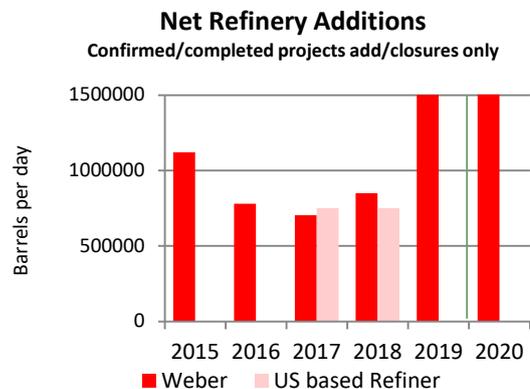
In 2020, almost 4Mnbd of new capacity (50 refineries) is currently under construction, although we anticipate capacity additions of between 1.8-2.0Mnbd. Kuwait (0.7Mnbd) and China (0.6Mnbd) are expected to lead the way, with a further 11 countries having >100Kbd under construction.

16 new refinery additions (each adding >=10Kbd) in 2014, 24 in 2015, 20 in 2016, 15 in 2017, 17 in 2018 and 10 in 2019.

In 2014-15, closures accounted for more than 1Mnbd of capacity. The rate of closures declined to 0.5Mnbd in 2016, 0.9Mnbd in 2017 and 0.2Mnbd in 2018.

Further expansion in domestic crude oil production will mean that the US remains a major driver of seaborne product trade in 2020. However, it can expect ever-intensifying competition from China, which returned product export gains of 8.3% in 2019 compared with a contraction of 3.6% in US exports.

The refinery timeline chart (left) is derived from Weber's own detailed tracking of new refinery projects. The chart below compares our summary forecast for refinery additions 2015-2020 with that provided by a large US based refiner. This comparative forecast factors in project delays beyond those reported by the refiners themselves.



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