

Weber Refinery Report



November 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.



Convent refinery closure latest in string of US capacity reductions - Nov 2020 - Royal Dutch Shell is to close its 239kbd (11.95Mnta) Convent refinery in south Louisiana by the end of the year. Following closure, Shell will continue to search for a buyer for the plant, part of its larger strategy to shrink its portfolio from 14 facilities to six by 2025.

The planned shutdown follows several other closure or conversion announcements since March of this year. In August the 135kbd (6.75Mnta) Lake Charles refinery, Louisiana, was idled, while the 160kbd (8Mnta) Paulsboro refinery, New Jersey was set to be idled in November.

Also in August, Phillips 66 reported that its 120Kbd (6Mnta) Rodeo refinery and 45Kbd (2.25Mnta) Santa Maria refinery, both located in California, would close by 2023. In addition, a number of other refineries will be repurposed for renewables. These include Marathon Petroleum's Dickinson refinery, North Dakota, its Matinez refinery, California, and its Gallup refinery, New Mexico.

The struggles impacting the US refinery sector are part of a global phenomenon caused by the shock of the Covid-19 virus, which has severely curtailed oil demand.

The IEA anticipates that approx. 14% of current refining capacity in advanced economies faces the risk of lower utilisation or closure by 2030, which could rise to 50% by 2040.



Australasia sees refinery conversions planned - Nov 2020 - BP Australia has announced it will cease fuel production at its Kwinana refinery near Fremantle, and convert it to an import terminal, helping to ensure the ongoing security of fuel supply for Western Australia.

In response to BP's conversion announcement, ExxonMobil, who owns the 90kbd (4.5Mnta) Altona refinery, Australia's oldest, is urging the government to start releasing aid to the country's oil refineries by January.

In New Zealand, fuels retailer Z Energy also wants its 135kbd (6.75Mnta) Marsden Point refinery converted to a fuel import terminal, and is in talks with fellow owners about the transition.

Z Energy said that if the refinery is no longer producing jet fuel and marine fuel, the firm will no longer be forced to sell fuel oil at a loss, and allow Z Energy to offer new products such as biofuels and fuel additives that cut greenhouse gas emissions.

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

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Latest

Shell to cut capacity at its Palau Bukom refinery - Nov 2020 - Shell has announced that it will halve crude processing capacity at its 500Kbd (25Mnta) Palau Bukom refinery, Singapore. This decision is part of Shell's wider programme to cut its portfolio and reduce its carbon dioxide emissions.

1 PetroChina lets contract for Jinzhou and Jinxi refineries - Oct 2020 - In contrast to many other countries, China is still looking to expand its refinery capacity. For example, construction of the new Phase 1 400kbd (20Mnta) at Yulong refinery in Shandong is expected to commence by end November

The project is led by private-sector aluminium producer Nanshan (71% stake), with Wanhua Chemical holding 20% and local government accounting for the remainder.

Phase 1, designed to run a mix of Saudi Arab Extra Light and Kuwaiti crude, is scheduled to be completed by 2025, followed by several long-term phases to reach 800kbd (40Mnta) by 2030.

Meanwhile, PetroChina has awarded a contract to Chevron Lummus Global to license technology for atmospheric residuum desulphurisation (RDS) units at its subsidiaries Jinzhou Petrochemical's 130.5kbd Jinzhou refinery and Jinxi Petrochemical's 130.5kbd Huludao refinery, both in Liaoning province.

1 New Talara Refinery to start-up Nov 2021 - Oct 2020 - The construction of the New Talara Refinery in Peru is in its final stage and at 91% completion. Start-up of the process units will begin at the end of November 2021 with the Primary Distillation Unit, and it is estimated that the entire start-up process of all 16 units will be achieved in approx. 4 months.

2 Petron to close Bataan oil refinery due to a difficult environment - Nov 2020 - Petron, the Philippine's sole refiner, is to shut down its 180kbd (9Mnta) Bataan refinery amid a difficult environment brought about by the coronavirus pandemic and an uneven playing field.

Petron's competitor, Pilipinas Shell Petroleum, also closed its 110kbd (5.5Mnta) Batangas refinery in August. Both companies have struggled with the current taxation system, of taxing imported crude coupled with a further taxation on the sale of processed petroleum product, along with the requirement to retain a 70-day inventory.

Trafigura gains access to largest refinery in the Mediterranean - Nov 2020 - Trafigura has acquired a 3.01% stake in Italy's Saras, which operate the 300kbd Sarroch refinery on the island of Sardinia – the largest refinery in the Mediterranean.

BPCL puts Bina and Mumbai refinery expansion plans on hold - Oct 2020 - India's Bharat Petroleum (BPCL) has put on hold its plans to expand its Bina refinery from 156kbd (7.8Mnta) to 300kbd (15Mnta) and its plans to install a new residue fluid catalytic cracker unit at its Mumbai refinery to boost efficiency pending privatisation of the company, scheduled to complete by March 2021.

1 Dangote refinery reached 80% completion - Nov 2020 - Work at Dangote's 650kbd (32.5Mnta) Lekki integrated refinery and petrochemical project in Nigeria has reached 80% completion. However, the level of completion of some aspects of the project such as physical construction, remain at 60%. The refinery is expected to be ready by mid-2021.

Al-Zour refinery and the Clean Fuel Project to reach full capacity by end-2020 - Oct 2020 - Two major oil refining projects in Kuwait will be fully commissioned by the end of 2020 – the 615kbd (30.75Mnta) Al-Zour refinery and the Clean Fuel Project (CFP) at the Al-Ahmadi and Mina Abdullah refineries.

3 Vietnam receives bids for Dung Quat refinery expansion - Nov 2020 - Binh Son Refinery (BSR) has received bids for its \$1.8 Bn upgrade and expansion project at the 145kbd (7.25Mnta) Dung Quat refinery to increase capacity to approx. 190kbd (9.5Mnta).

Two consortiums, one led by Hyundai Engineering and Construction and the other by Technip, have submitted bids for the project, which will allow Dung Quat to be more flexible and process different types of crudes.

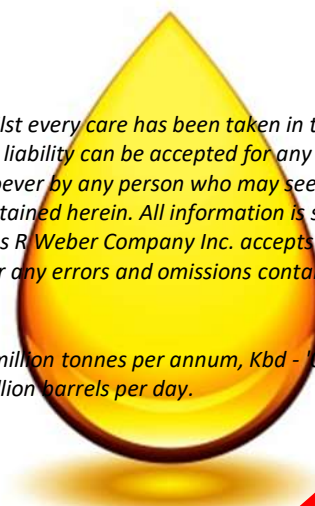
Engineering, procurement and construction (EPC) is expected to begin in August 2021, with completion not to come on-line until far later than an earlier target of 2021.

2 Preem advances conversion project for Lysekil refinery - Oct 2020 - Preem is moving forward with a recently proposed project to convert its 220kbd (11Mnta) Lysekil refinery in Sweden into Scandinavia's largest manufacturing site for renewable fuels.

An application to amend the refinery's existing environmental permit to enable production of renewable fuels is to be entered before yearend, with final investment decisions to be taken in summer 2021 for targeted start-up by 2024 at the latest.

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



Latest
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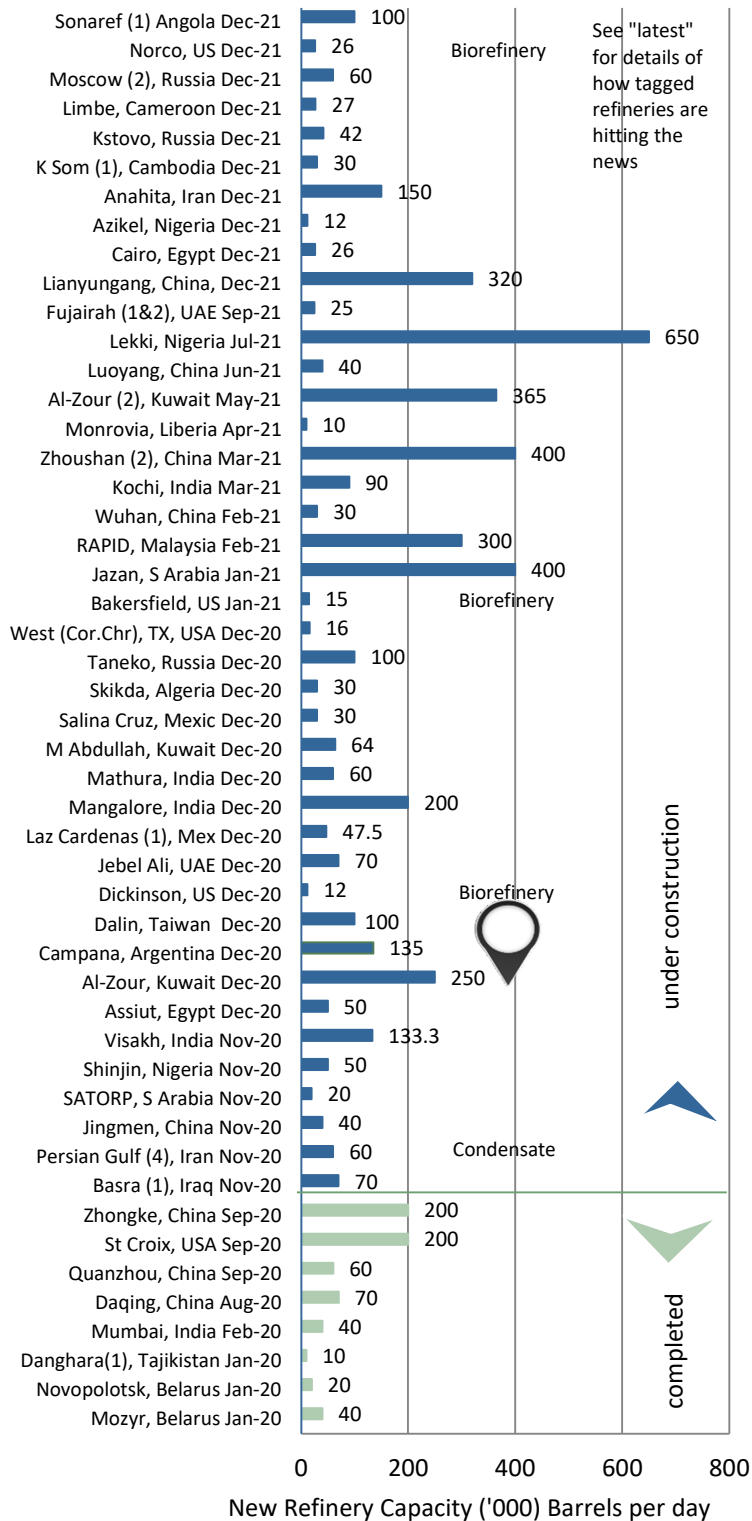
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Timeline

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).

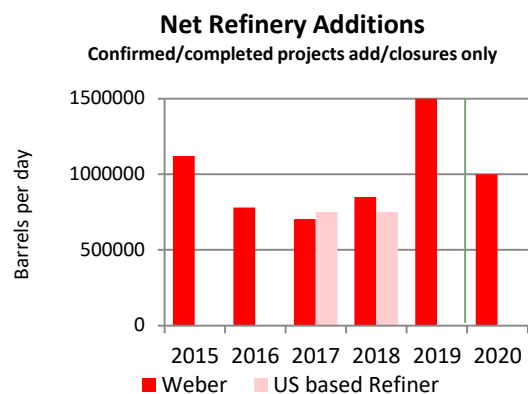
In 2020, we anticipate capacity additions of around 1Mnbd, down from 2Mnbd at the start of the year, as a number of projects are expected to slip into 2021. China (0.4Mnbd) is expected to lead the way, with a further 16 countries having >100Kbd under construction.

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 2018/19 combined. However, rumours are now swirling about multiple closure plans around the globe in a market severely squeezed by the pandemic. We have seen around 1.4Mnbd of planned or completed capacity closure or conversion in North America alone since end 2019.

The US remains a major driver of seaborne product trade in 2020. However, falling demand in its key South American market due to the pandemic, coupled with new Chinese capacity coming on stream, means that US product exports are on course to contract by 10% in 2020 Yoy, after falling 4.6% Yoy in 2019.

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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