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.

Middle East refinery expansion plans experiencing setbacks - Aug 2015 - Despite a surge in refinery capacity additions in recent months, e.g. Ruwais (400kbd) and Yanbu (400kbd), the picture for Middle Eastern refinery projects has become rather mixed with Saudi Arabia, the UAE and Kuwait all impacted.

Saudi Arabia’s 400kbd Jizan refinery complex in the Red Sea city port won’t open in 2017 as planned due to disagreements with contractors, but will be delayed by around 2 years.

The UAE’s 200kbd Fujairah refinery on the Gulf of Oman is now scheduled for completion by the end of 2018, much later than its original 2016 on line date. Even the UAE’s newly expanded Ruwais refinery was reported to be running at just 50% in May following startup issues.

Kuwait’s 615Kbd Al Zour refinery now won’t be opened until 2019 at the earliest with estimated build costs rocketing by USD2.9Bn to USD15.9Bn. The project was first mooted in 2008. Prior to the latest delay, it was due for completion in 2018.

The delays are indicative of the halting progress Middle Eastern countries have made in their attempt to reduce their reliance on imported oil products such as gasoline, diesel and jet fuel, as well address soaring domestic demand for energy. Nevertheless, it seems only a matter of time before regional self sufficiency is achieved.

Cartagena phase 1 expansion to be completed by 1Q16 - Aug 2015 - Ecopetrol is to fully restart its Cartagena refinery in Colombia by March 2016 more than doubling its capacity to 165kbd, making Colombia self-sufficient in refined oil products. It has been importing increased quantities during the facility’s refurbishment.

CEO Juan Carlos Echeverry expects that by March at the latest the refinery will be working 100% and starting to come on line in the third quarter.

The USD6.4Bn expansion will enable the export-focused facility to vastly increase fuel production for the domestic market, supplementing output from the inland Colombia’s biggest refinery Barrancabermeja, as well as ease some of the company’s financial strain.

Shell to shed Japanese refining assets - Aug 2015 - Royal Dutch Shell has entered a deal to sell nearly all of its interest in Japanese refiner Showa Shell Sekiyu KK to Idemitsu Kosan as part of the company’s ongoing strategy to reduce its downstream refining assets.
New US refinery plans announced - Aug 2015 - ExxonMobil is planning a 20kbd capacity expansion at its 345kbd refinery in Beaumont, Texas, to accommodate increased processing of US light crudes, as well as contribute to improved production yields and energy efficiency at the plant.

The company disclosed neither a timeline nor estimated cost for the proposed project.

In a separate announcement, Quantum Energy revealed it is to form a joint venture with Native Son Holdings to build North Dakota’s third refinery – a 40kbd grassroots refinery in Berthold.

The companies intend to file the construction permit application for the refinery by the end of July, but they did not disclose either a timeframe or estimated cost.

There are also discussions with a Canadian firm regarding the possible formation of another JV to construct another 40kbd refinery in either Manitoba or Saskatchewan.

China to boost oil imports by privatising refineries - Aug 2015 - China’s top 3 state-owned oil companies, Sinopec, CNOOC and PetroChina (CNPC), are looking to upgrade and increase their oil capacities by working with private refineries, commonly known as teapots.

China’s Ministry of Commerce has just announced that non-State-owned refineries can purchase oil imports directly. Currently, Chinese oil refineries are heavily monopolised. Hence, Beijing officials are pushing ahead to privatize the domestic oil market.

Yet, private refineries must meet strict environmental and efficiency standards to receive licenses, while guaranteeing capacity of over 2Mta of crude oil with no less than 300,000 tonnes of storage capacity along with access to terminals that can handle 500kbd.

China’s largest teapot refiner, Dongming Petrochemical received its first cargo of Oman crude, 270,000 tonnes earlier this month, imported by China Oil, a trading firm subsidiary of PetroChina and delivered at Rizhao Port on the East Coast of Shandong Province. China accounts for 90% of Oman’s crude exports – 912kbd in June.

A number of teapot refineries have already set up near Rizhao Port, and hope to generate more substantial revenues from purchases of oil imports. The companies with licenses granted by the Ministry of Commerce are the Shandong Dongming Petrochemical, Sinochem Hongrun Petrochemical, Panjin North Asphalt, Shandong Lijin Petrochemical and Kenti Petrochemical. They are consigned to refine a combined total of 25.8 Mta (518kbd) of imported oil.

Egypt advances Assiut & Midor refinery modernisation projects - Aug 2015 - Egypt has finalised a series of joint agreements with a subsidiary of Technip to provide work on projects designed to upgrade and modernise operations at two of the country’s ageing refineries – Assiut (90kbd) and Midor (100kbd).

At Assiut, the target is to add a new diesel hydrating complex by 2016/17. At Midor, the target is to expand the refinery’s processing capacity from 100kbd to 160kbd. No construction timeline has been disclosed.

KRG to tender three new refineries - Aug 2015 - The Kurdistan Regional Government (KRG) is hoping to attract private bids for three new refineries with a total of 150kbd of capacity, in an attempt to bridge the gap between uneven domestic fuel supply and rising demand.

In tandem with these efforts, government officials hope to reform the structure of Kurdistan’s downstream sector, aiming to wean it from expensive subsidies.

Gazprom Neft advances Moscow refinery revamp - Aug 2015 - Gazprom Neft has gained final approval from Russian federal building standards and quality-control agency Glavgosespertiza to begin construction on its long-planned combined oil refinery unit (CORU) upgrade and modernization project at the 243kbd (12.15 Mta) Moscow refinery.

The CORU plant, which is designed for primary distillation of crude oil to produce high-octane Euro-5 standard gasoline, diesel fuels, and vacuum gas oil, will replace outdated equipment and be fully compliant with Russia’s current ecological standards and environmental regulations.

Construction on the new plant, which will increase overall design capacity of the refinery to 370kbd (18.15 Mta), is scheduled to begin by year-end, with start-up due 3Q18.

Total to sell half of Port Arthur refinery - Aug 2015 - Total Petrochemicals and Refineries USA, is seeking a buyer for 50% of its 174kbd Port Arthur refinery, but would remain the operator of the facility.

Most of the refinery’s products, transportation fuels, pet coke, aromatics and liquefied petroleum gas, are shipped east of the Rockies through pipeline integration with the US transportation fuel markets.

Salt Lake City refinery expansion complete - Aug 2015 - In 2Q15 Tesoro completed an expansion of its 58kbd refinery in Salt Lake City, Utah, which has more than doubled the refinery’s ability to run the paraffinic crudes, to 24kbd.

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We estimate that net global refinery capacity increased by 0.4Mmbd in 2014 (revised down from 0.8Mmbd in May, as we pushed the new 400Kbd Ruwais refinery opening back from 2014 to 2015). This built on increases of 1.4Mmbd and 1.1Mmbd in 2013 and 2012 respectively (the latter two numbers are based on BP data).

In 2015 and 2016, we anticipate net refinery capacity additions of 1.5Mmbd and 1Mmbd respectively. After 16 new refinery additions (each adding >=10Kbd) in 2014 and 25 scheduled for 2015, the pace of additions is expected to slow in 2016 with just 11 additions. However, we expect delays and cancellations to expansion projects, which may alter the picture significantly.

In 2014, closures accounted for 1Mmbd of capacity, and 1Mmbd has already been confirmed for closure in 2015-16. A further 0.7Mmbd of capacity - spread between Japan, FSU and China - is also thought to be under threat of closure over the next two years.

The Middle East along with the US will be key drivers of changing product trade routes in 2015. It will be interesting to see if the new Chinese refinery capacity will succeed in backing out non-Asian imports into Asia, which have been on the rise in the last few years.

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 2015-2017 with that provided by a large US based refiner. This comparative forecaster factors in project delays beyond those reported by the refiners themselves. The US refiner has an interest, of course, in taking a conservative view of new projects coming online and has pushed some projects out beyond 2017.