



POTEN TANKER OPINION



Refining In The Doldrums

Covid-19 accelerates changes in global refining landscape

At the start of 2020, the focus of the global shipping and refining industry was on the implementation of IMO 2020. What would be the winning fuel and which refiners were best positioned to make it? Now, as we are approaching 2021, the conversation has changed dramatically, and so has the refining landscape. The demand shock caused by Covid-19 has hit the industry hard and it has accelerated the rationalization of the global refining business. Overall, global capacity is still growing, albeit at a slower pace than was planned pre-pandemic. In some regions of the world (mainly in the developed countries) refinery capacity is being closed, but expansions are still being planned in developing countries in Asia and the Middle East. The implications for the product tankers industry can be significant, depending on overall demand growth and regional product balances and refining economics.

In the United States, refinery closures started in the summer of 2019 when a major fire permanently closed the 335 Kb/d refinery of Philadelphia Energy Solutions. As the corona virus spread around the country, product demand and refinery margins plummeted, causing six other refineries in the U.S. to shut down capacity. Companies like Marathon, Phillips 66, PBF and Shell all closed facilities or converting them to produce biofuels. So far, the U.S. is planning to close 1,260 Kb/d of refining capacity. While this is only 7% of total U.S. capacity, it can have significant regional effects. Refinery closures on the East and West Coast of the country will lead to more product imports (from Europe and the Far East respectively). Cutbacks on the Gulf Coast on the other hand will most likely reduce product exports, mainly to Latin America. On a net basis, we expect the closures in the U.S. to be positive for product tanker demand.

In Europe, several facilities in the UK, Belgium and France are reducing runs and/or are likely to close permanently. This could eliminate some 270 Kb/d of refining capacity. More capacity could be at risk in Europe if the extremely low refining margins persist, but European refiners are generally slower to respond to changes in market circumstances than their American rivals.

In Asia/Oceania, we have also seen several announcements of cutbacks and closures. In Australia, BP is closing their refinery, while the only refinery in New Zealand, Refining NZ, is also considering its future. Both facilities are considering a conversion to an import terminal. If this happens, Australia and New Zealand will have to rely almost exclusively on seaborne imports for their needs. While neither of these markets are very large, their long distance to sources of supply (Singapore,

U.S. Refinery Closures			
Company	Location	Capacity	Status
Calcasieu Ref.	Lake Charles	128	Closed
Holly Frontier	Cheyenne,WY	52	Ceased Operations 8/20; Start Renewable Diesel in 1Q22
Marathon	Gallup, NM	26	Ceased Operations 2Q/20
Marathon	Martinez, CA	161	Ceased Operations 2Q/20; Renewable Diesel in 2022
Marathon	Dickinson, ND	19	Conversion to renewable diesel complete in 4Q20
PBF	Paulsboro, NJ	85	Idling units with total reduction of 85Mb/d
PES	Philadelphia, PA	330	Closed due to fire (prior to Covid)
Phillips 66	San Francisco, CA	140	Conversion to renewable diesel complete in 2024
Shell	Convent, LA	240	To be closed, for sale
Delek	Krotz Springs, LA	80	Conversion to Reformer/Alky ops only
		1,261	

Other Worldwide Refinery Closures			
Company	Location	Capacity	Status
Silver Peak	Come By Chance, Canada	130	Closed, for sale
BP Australia	Kwinana, Australia	146	Converting to fuel import terminal
Refining NZ	Marsden Point, New Zealand	135	Capacity Reduction by 45Kb/d; possible conversion to terminal
Gunvor	Antwerp, Belgium	110	Currently shut down; permanent closure likely
Ineos	Grangemouth, UK	65	Partial closure of crude unit and FCC
JXTG	Osaka, Japan	115	Closed
Petron	Bataan, Philippines	180	Currently shut down; closure under evaluation
Shell	Singapore	250	Reduction in capacity from 500 to 250 Mb/d
Shell	Tabangao, Philippines	110	Closed
		1,241	

Source: Turner Mason, Poten & Partners

South Korea or China) will provide a boost to ton-mile demand for product carriers.

There are also refinery closures in other Asian countries that could have an impact on the product tanker markets. Shell is converting its 110 Kb/d refinery in Batangas (Philippines) to an import terminal. This leaves the country with only one refinery. Imports are expected to take up the slack.

The expectation is that more refineries in mature markets will close or convert to import terminals, especially less sophisticated facilities with no integration with petrochemicals.

Over the longer term this could mean that refining capacity will be concentrated worldwide in regional hubs such as Singapore, Korea, China, India and the Middle East, in addition to the traditional western refining centers in Europe and the U.S. Gulf. Refined products will move in larger quantities over longer distances. We have already seen that happening to some degree with newbuilding Suezmaxes and VLCCs moving product from Asia into the Atlantic Basin. This can develop into a hub and spoke model, where large, coated tankers (LR2, LR3) deliver crude into distribution hubs and smaller tankers will distribute the products to end-users. All in all, this is a possible scenario that bodes well for the product tanker market.