POTEN TANKER OPINION

Changing Tanker Trades Down Under

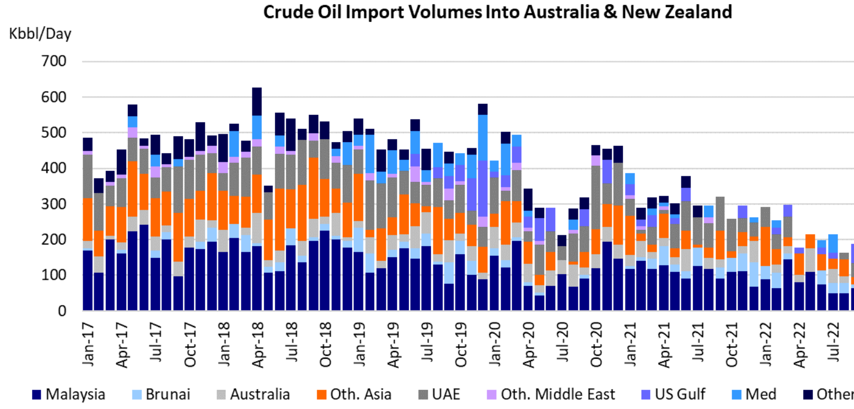
The impact of refinery closures in Australia and New Zealand

Australia and New Zealand are a case study of how quickly circumstances can change in the oil markets. Prior to the pandemic, smaller, older and less sophisticated refineries in both countries were already being squeezed by large-scale export-oriented refineries throughout the Middle East and Asia. The continued growth of these facilities created oversupply and low refining margins in the region. One by one, the refineries in Australia were closed and/or converted into import terminals. The pandemic, which hit oil demand in Australia and New Zealand hard, appeared to be the final nail in the coffin. New Zealand's only refinery, the 96,000 b/d Marsden Point Oil Refinery was converted into an import terminal and even the remaining two facilities in Australia in 2021 (with a combined capacity of 234,000 b/d) were at risk. It was cheaper to import refined products from the large refineries in the region than to keep less efficient (money losing) domestic facilities in operation. This logic was applied in many countries: throughout the Covid-19 pandemic, refineries were closed all over the world. In the U.S. alone 1 Mb/d of capacity has been closed or converted since January 2020. Europe lost some 800,000 b/d during the same period and in Asia, Japan, Singapore and the Philippines are shutting refineries. The assumption was that there was ample spare capacity in other parts of the world. However, when the world started to come out of lockdowns after the pandemic, product demand recovered more quickly than expected, putting the global refined product supply chain under pressure. Then Russia invaded Ukraine …

Since the conflict in Ukraine started, refining margins have escalated worldwide. Oil prices spiked and sanctions against Russia have scrambled trade flows and boosted transportation costs for both crude oil and refined products. This unpredictable series of events must have taken some countries by surprise.

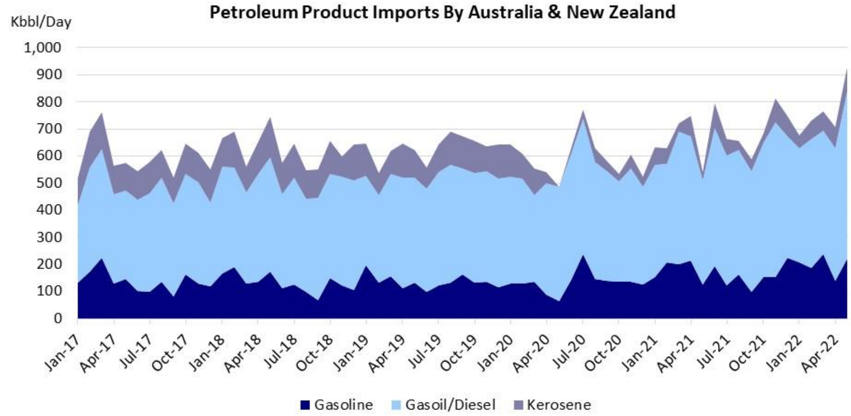
In New Zealand, the one and only refinery has been converted into an import facility. Therefore, as of Q1 2022, the country completely relies on imports and faces both high product prices and product tanker rates. The situation in Australia is only slightly better. Two refineries have remained open, and the government decided to make funds available for upgrades to increase their capacity. The charts show clearly how the situation has changed in recent years. Crude oil imports into Autralasia (Australia and New Zealand) have been more than cut in half. Most of the imports come from within the region (including offshore Australia) and are moved almost exclusively on Suezmax and Aframax tankers. The decline in imports have diminished the employment opportunities for these vessel segments over time.

Crude Oil Import Volumes Into Australia & New Zealand



Source: Lloyd's List Intelligence

Petroleum Product Imports By Australia & New Zealand



Source: JODI

Refined product imports, which had been steadily increasing since 2010, accelerated in 2021 and 2022. Australasia predominantly imports gasoil/diesel, with gasoline a distant second. A review of reported clean spot fixtures into Australia and New Zealand shows that South Korea is the largest shipper of product, followed by Singapore and Taiwan. Japan, India and China are smaller, but still meaningful suppliers of products to Australasia. In terms of vessel classes, it is not surprising that MR's dominate these trades, representing 61% of the reported spot volumes. Aframaxes/LR2's transport 25% of the spot cargoes, while Panamax/LR1 tankers take care of the rest.

While the shift from crude to product may have been more expensive than initially anticipated, the conflict between Russia and Ukraine has highlighted another risk: availability. The sanctions against Russia have tightened the global refined product market. China has ample spare refining capacity but decided not to use it thus far to cut domestic emissions. While it appears that China is considering raising fuel export quotas, the fact that this is a government, rather than a commercial decision underlines the associated risks.

For Australasia, the conflict in Ukraine and the related geopolitical tension have exposed another risk. What happens if the tensions between China and Taiwan boil over in the South China? A recent study by the Royal Melbourne Institute of Technology, a public research university in Australia, highlighted that a prolonged war would threaten 90% of Australia's fuel import and supplies would run out after two months.