International Energy Agency

OIL Medium-Term Market Report 2014

Changing Global Petroleum Product Trade Flows

2014 EIA Energy Conference

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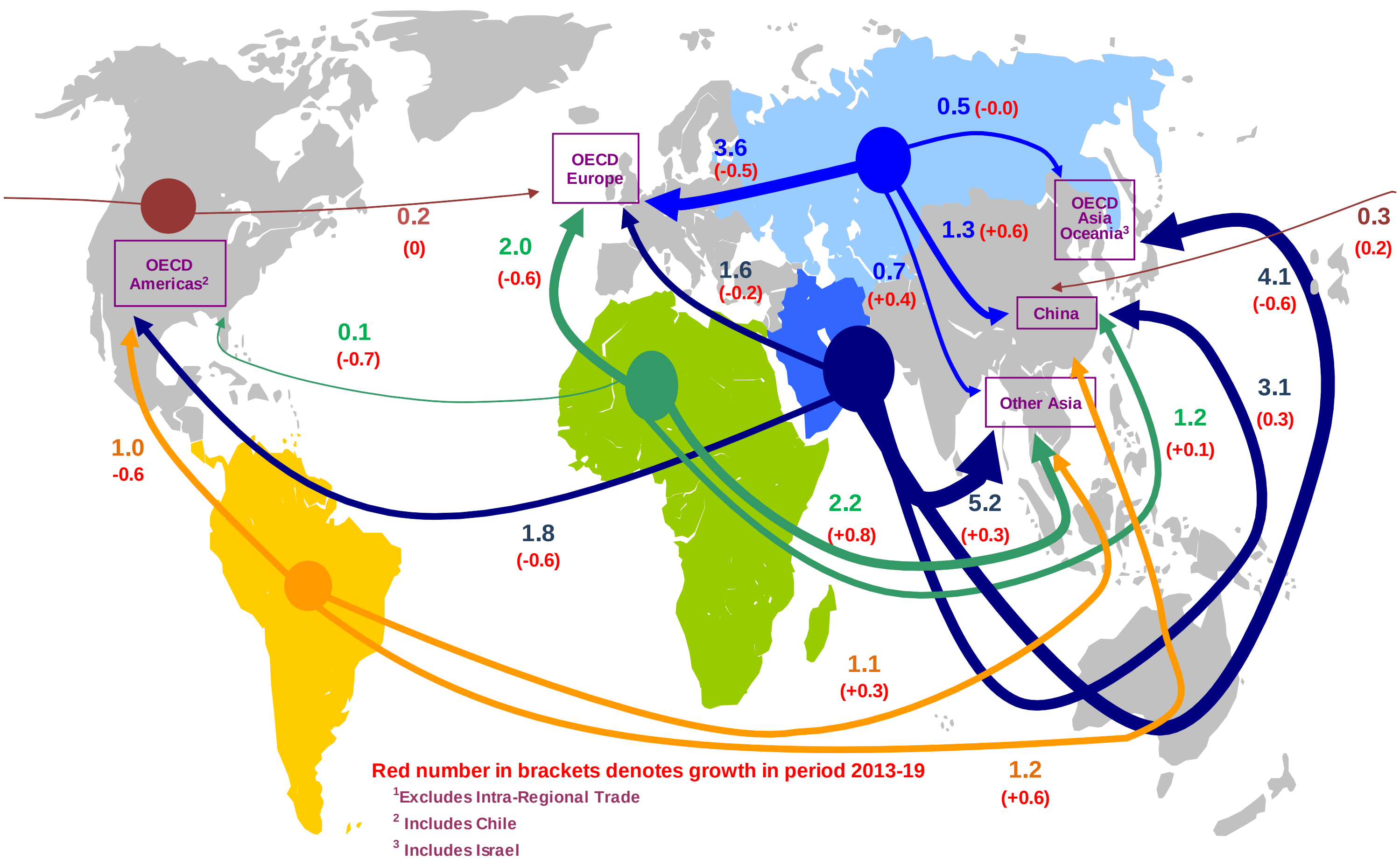
Washington, DC
July 14, 2014

Market Analysis and Forecasts to 2019

Crude trade shifts further east

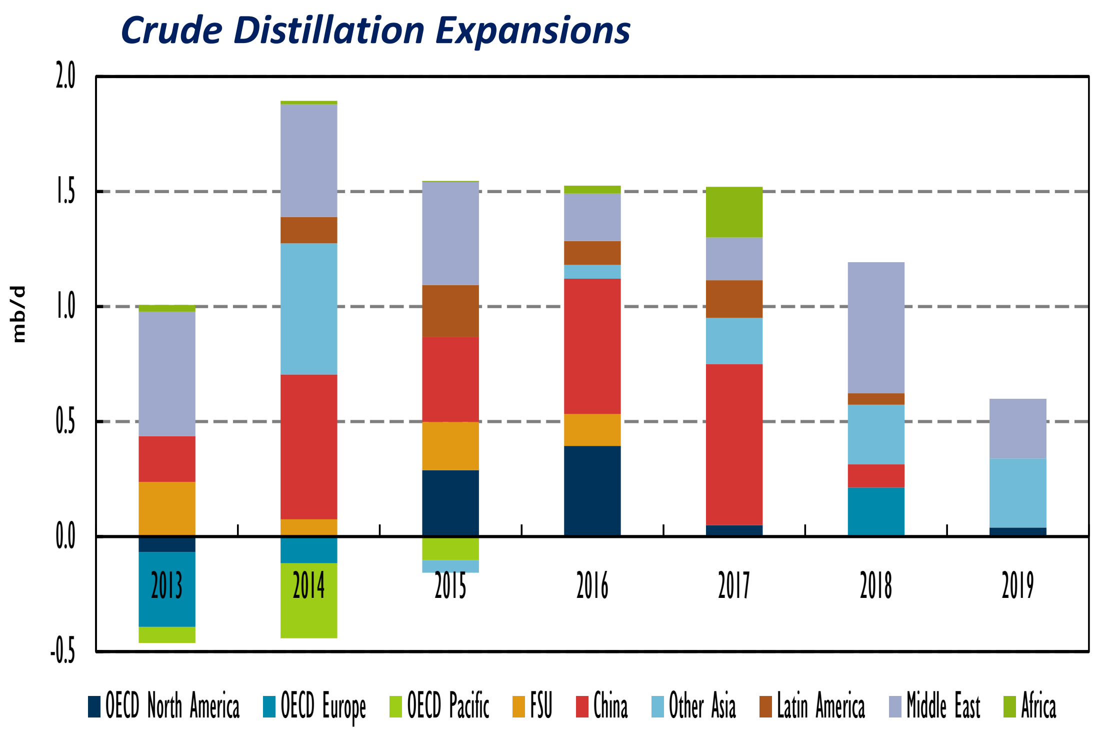
Crude Exports in 2019 and Growth in 2013-19 for Key Trade Routes[1]

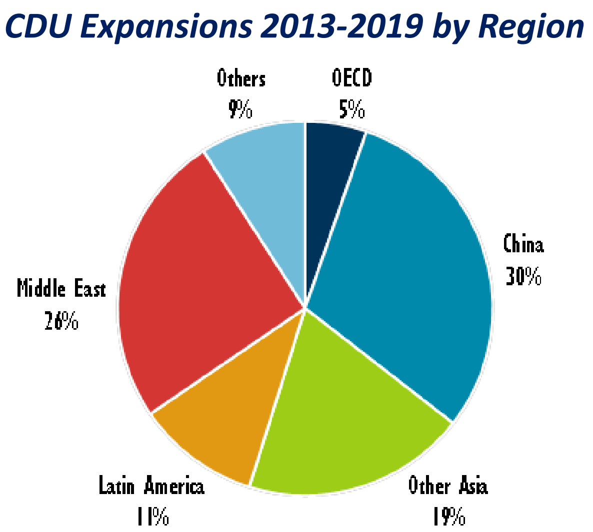
(million barrels per day)



- Asia imports increase by 2.6 mb/d to 22.1 mb, or 65% of the international crude market

Refinery capacity expansions continue…

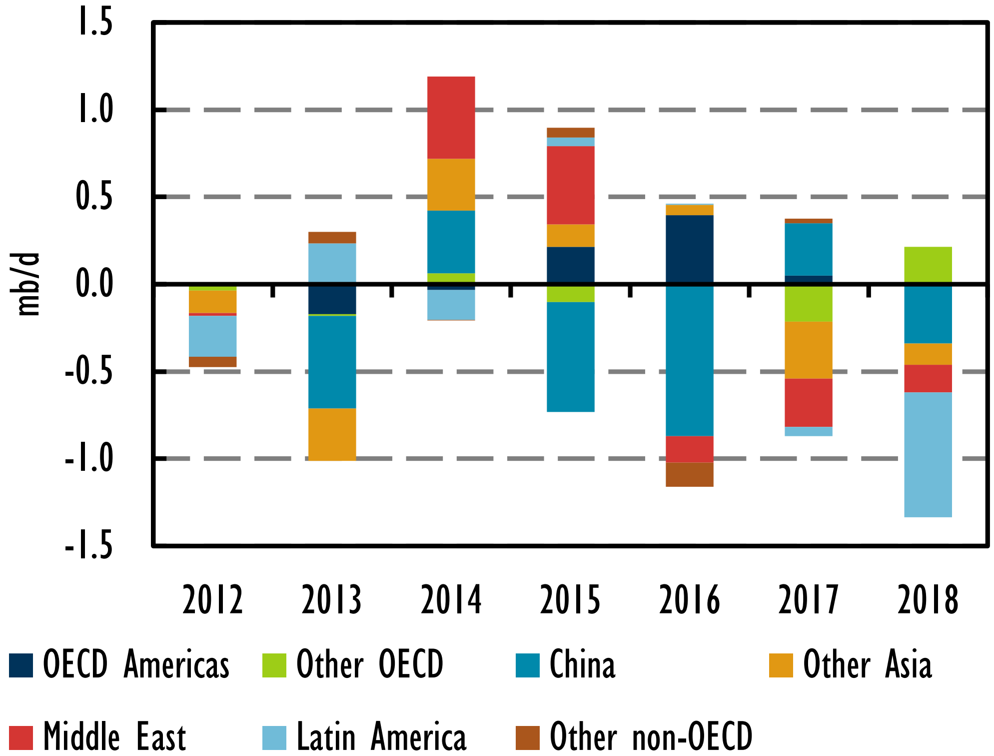




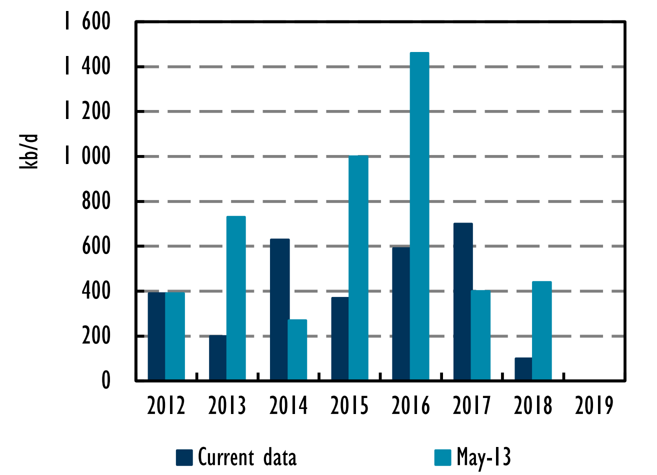
- 95% of new capacity comes from the non-OECD, of which Asia accounts for half

...but plans are getting scaled back in the face of rising over-capacity

Revisions to capacity expansion plans since 2013 MTOMR



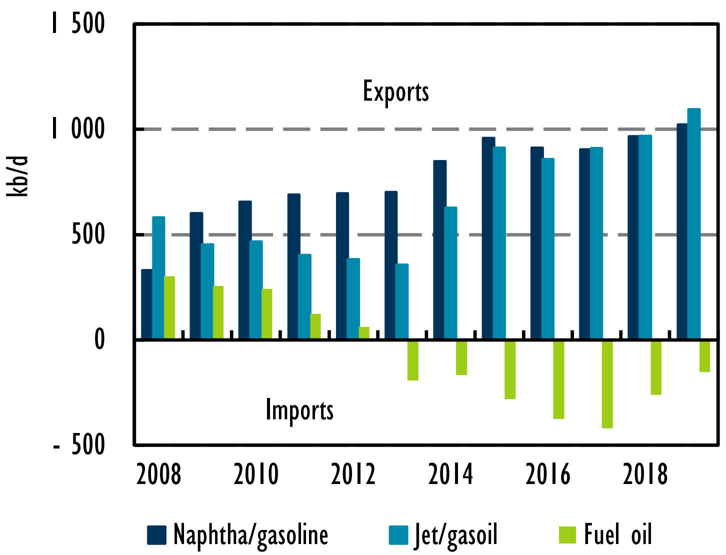
Chinese CDU expansions vs . previous



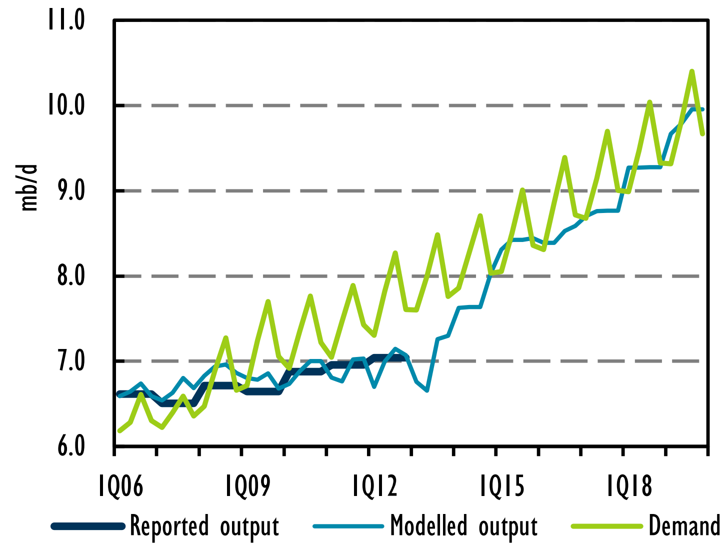
- Projects slip in Latin America
- China stalls new projects on looming surplus capacity, corruption scandals, pollution concerns

Middle East emerges as large product exporter

Middle Eastern product balances



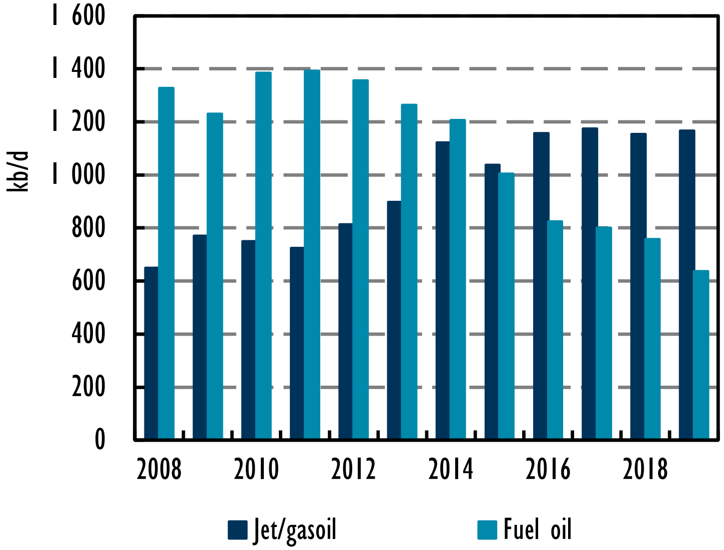
Middle East refinery output vs demand



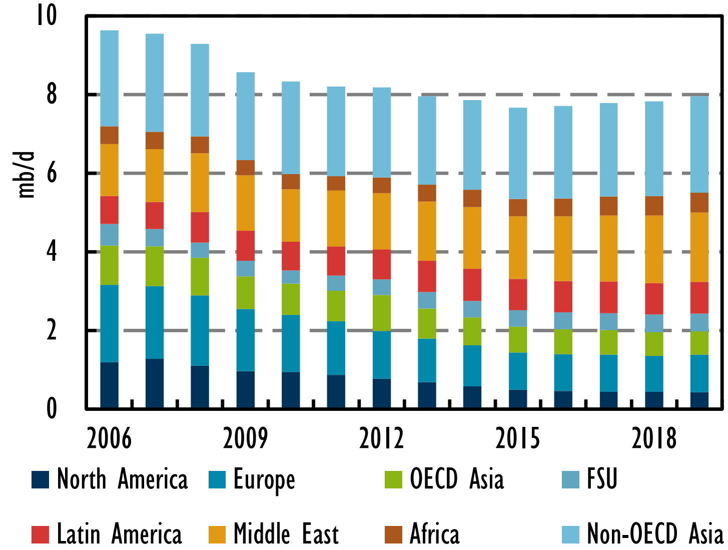
- New refinery projects coming on stream in the Middle East exceed regional demand growth
- Increased product exports – in particular of middle distillates

FSU fuel oil supplies cut back as refiners upgrade and export duties are changed

FSU key product exports

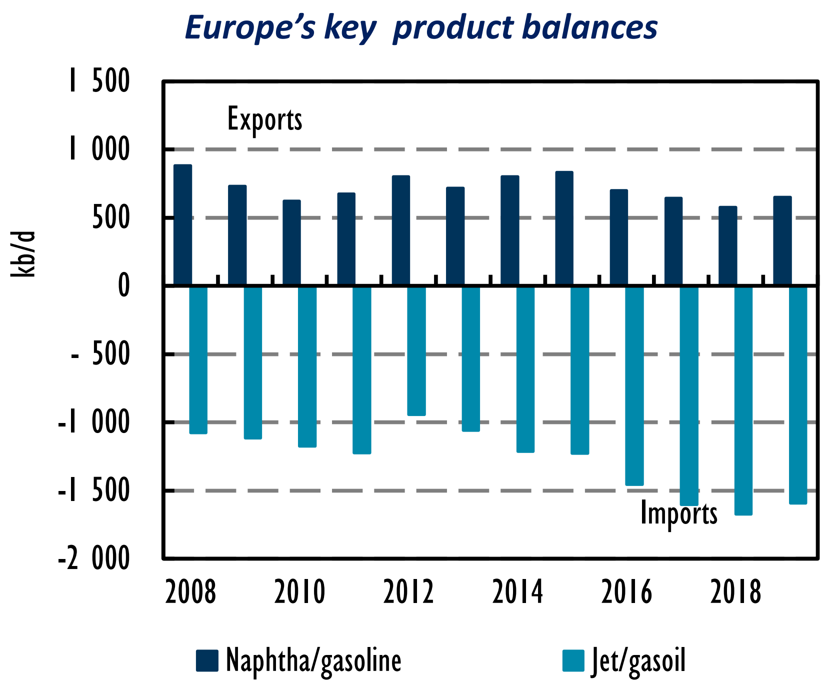


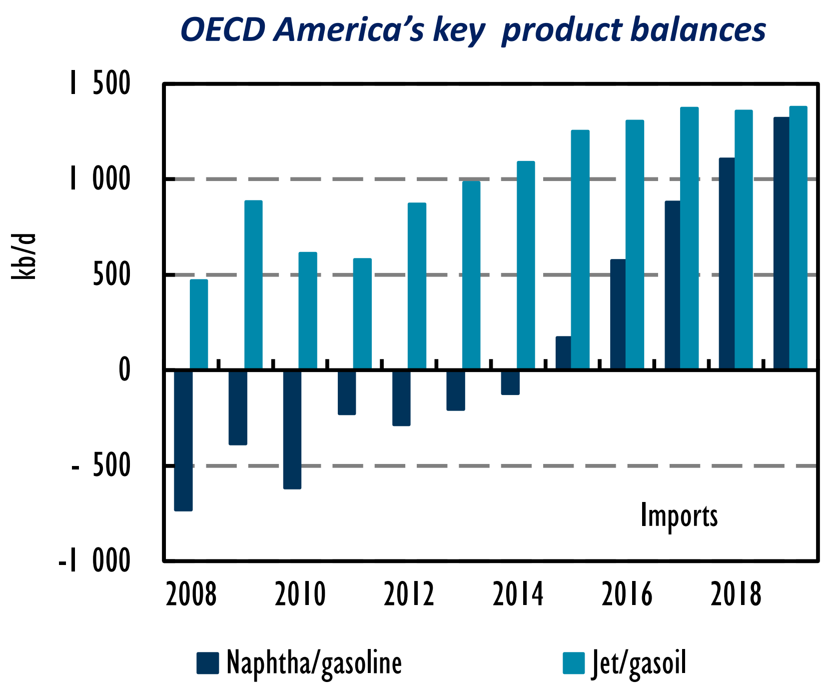
Global fuel oil demand



- Equalization of Russian fuel oil export duties with crude oil from Jan 2015, has led to refinery upgrading investments
- New duties make simple refiners, with high fuel oil yield, uneconomical
- Fuel oil demand unchanged through 2019,as non-OECD offset improvement in OECD

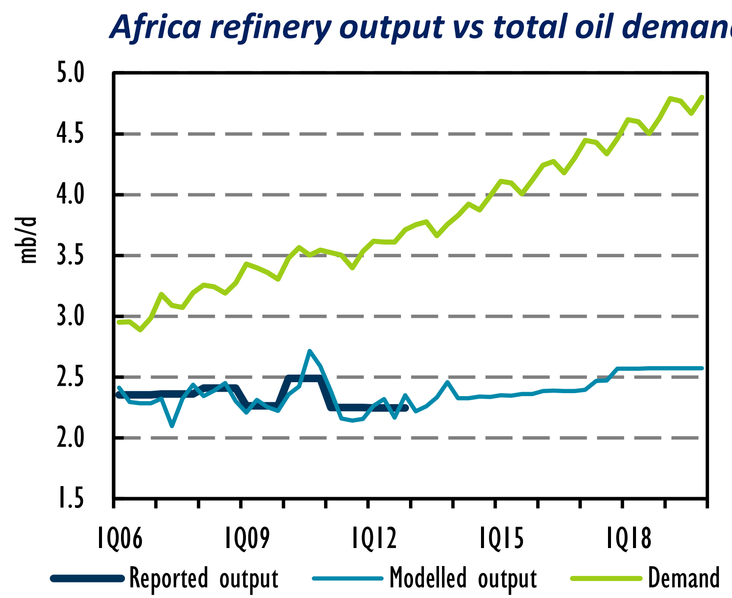
Atlantic Basin product trade to increase

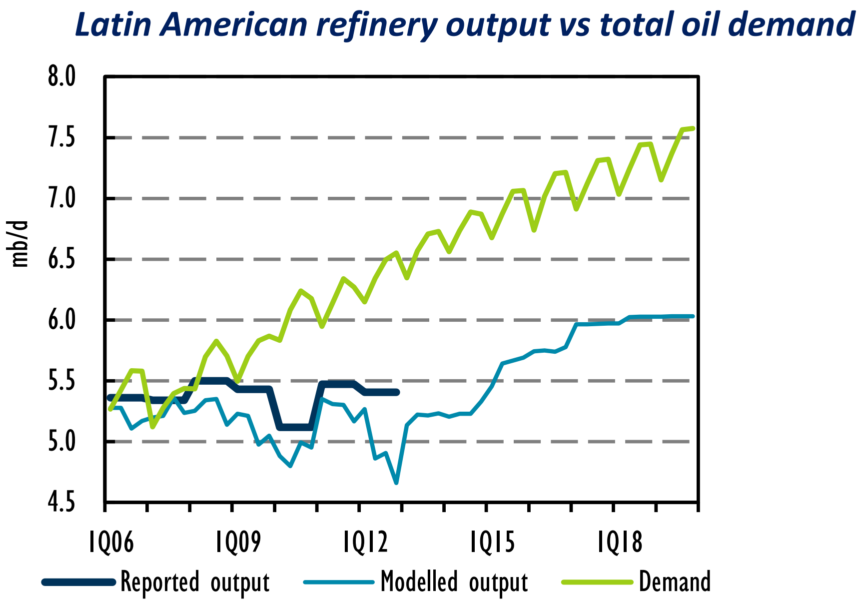




- **European middle distillate deficit balloons to 1.6 mb/d by 2019,but region struggle to rid itself of surplus gasoline supplies**
- **US refinery industry renaissance, coinciding with sharp drop in demand, takes US to top global naphtha/gasoline supplier**

Africa, Latin America remain importers





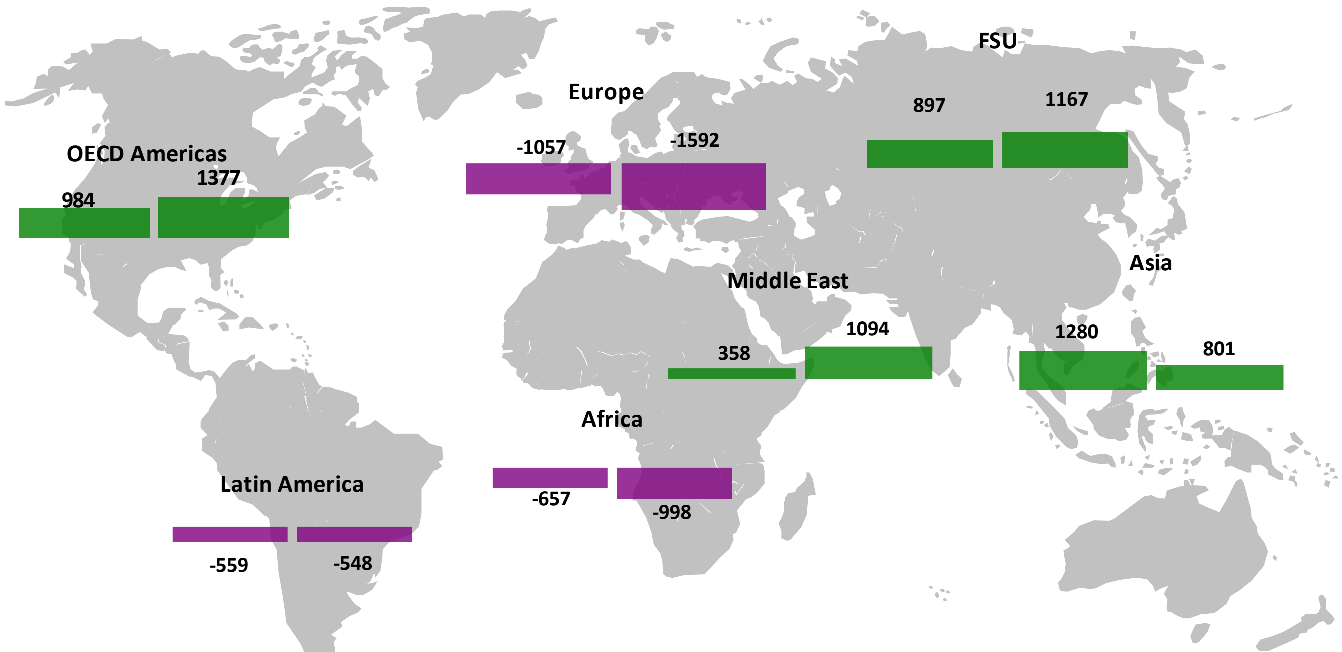
- Difficulties in bringing new refinery projects on stream leave Africa and Latin America with large product import requirements
- Heavy financial burden on governments subsidising fuels

Europe’s middle distillate deficit balloons to 1.6 mb/d by 2019

Product Supply Balances - Gasoil/Kerosene

Regional Balances in 2013 and 2019[1]

Thousand barrels per day

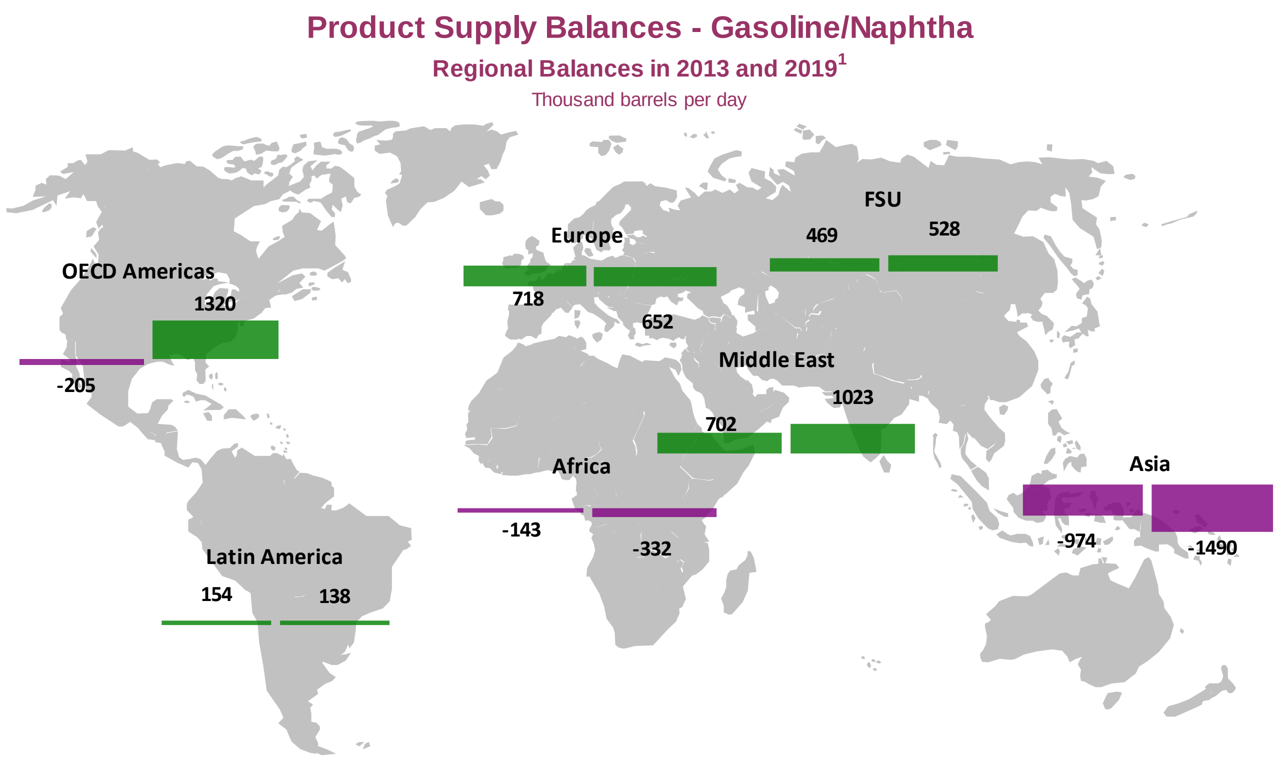


Refinery production and supplies from other sources vs. end-user demand. Regional total does not add to zero due to feedstock trade and differences in product classifications.

1. Positive number indicates net-export potential, negative number net-import requirement

- Increased supplies from Middle East, North America & Russia

Emerging North American gasoline glut

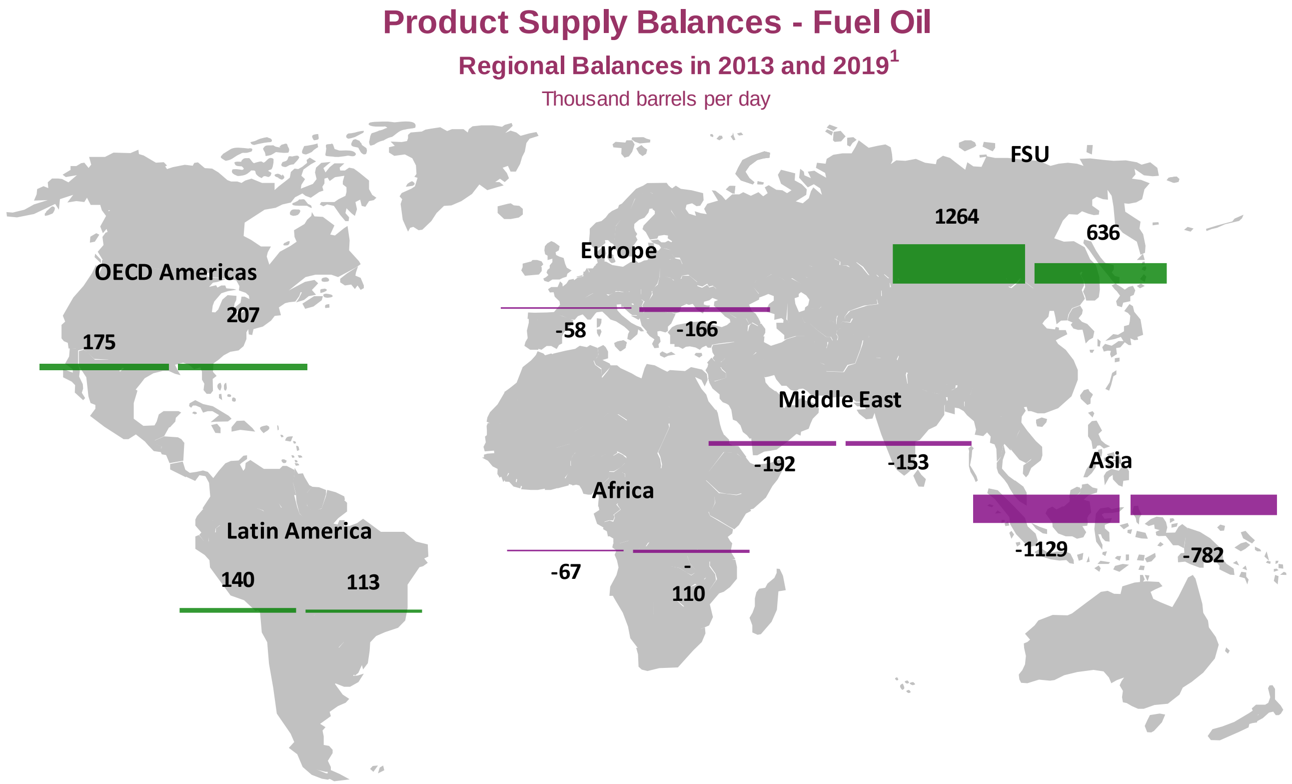


Refinery Production and supplies from other sources vs. end-user demand. regional total do not add to zero due to feedstock trade and differences in product classifications.

Positive number indicates net-export potential, negative number indicate net-import requirement

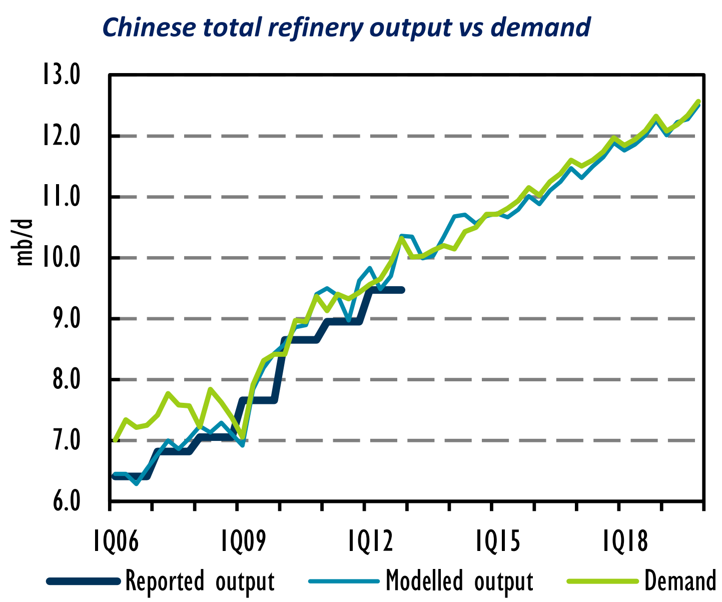
- N. America faces excess light distillate supply of 1.3 mb/d in 2019
- In search of export outlets

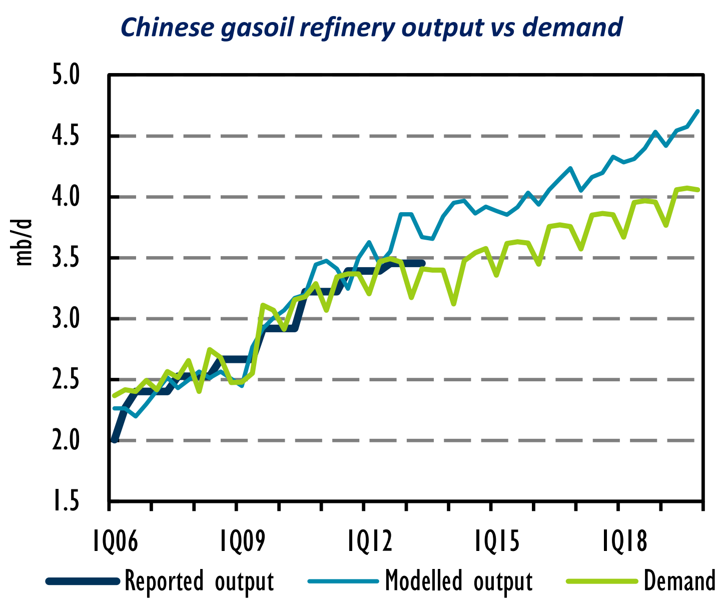
Fuel oil markets could tighten



- Russian export duty reform, refinery investments curb output
- Global demand stays flat – unless marine bunker markets shift away from fuel oil ahead of new IMO sulphur standards

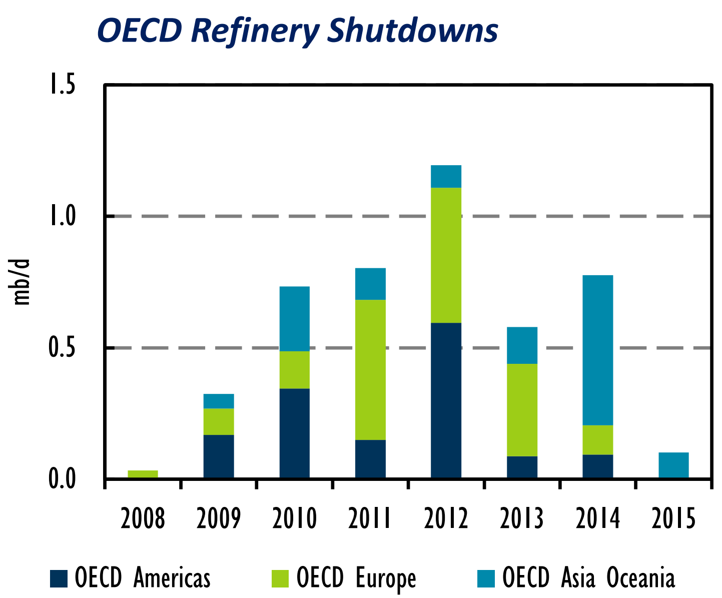
Chinese product output to balance demand as projects scaled back

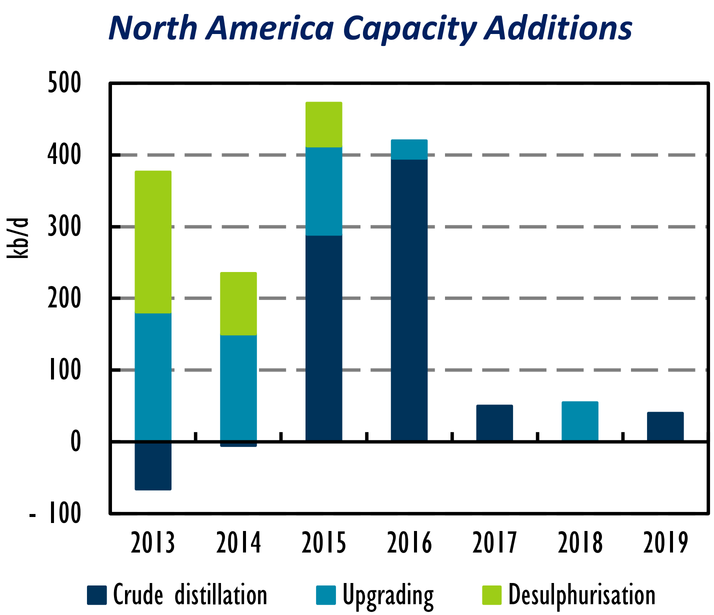




- Apparent slowdown in gasoil demand growth sees product surpluses emerging
- China turned net gasoil exporter in 2013

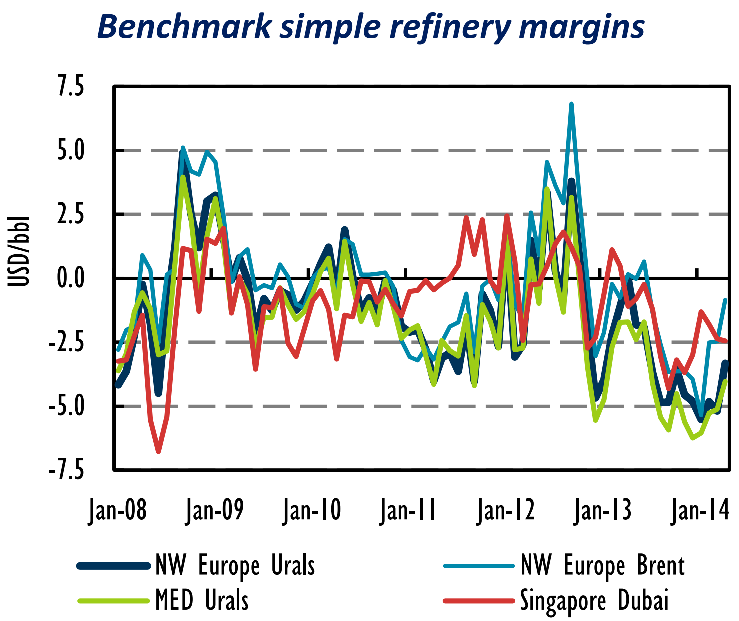
Diverging trends in OECD refining: Europe & Asia versus North America

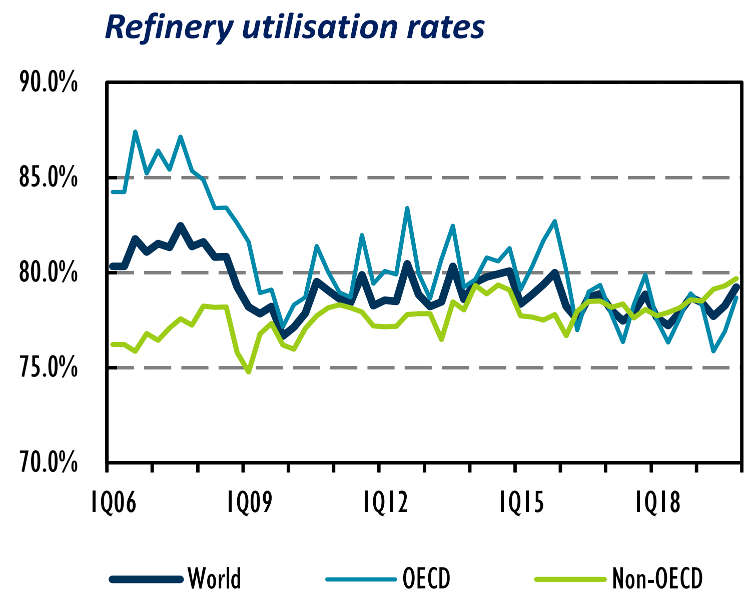




- 4.8 mb/d of OECD crude distillation capacity shut since 2008
- Surging US LTO, condensate supplies lead to 750 kb/d expansion in US in 2015-2017

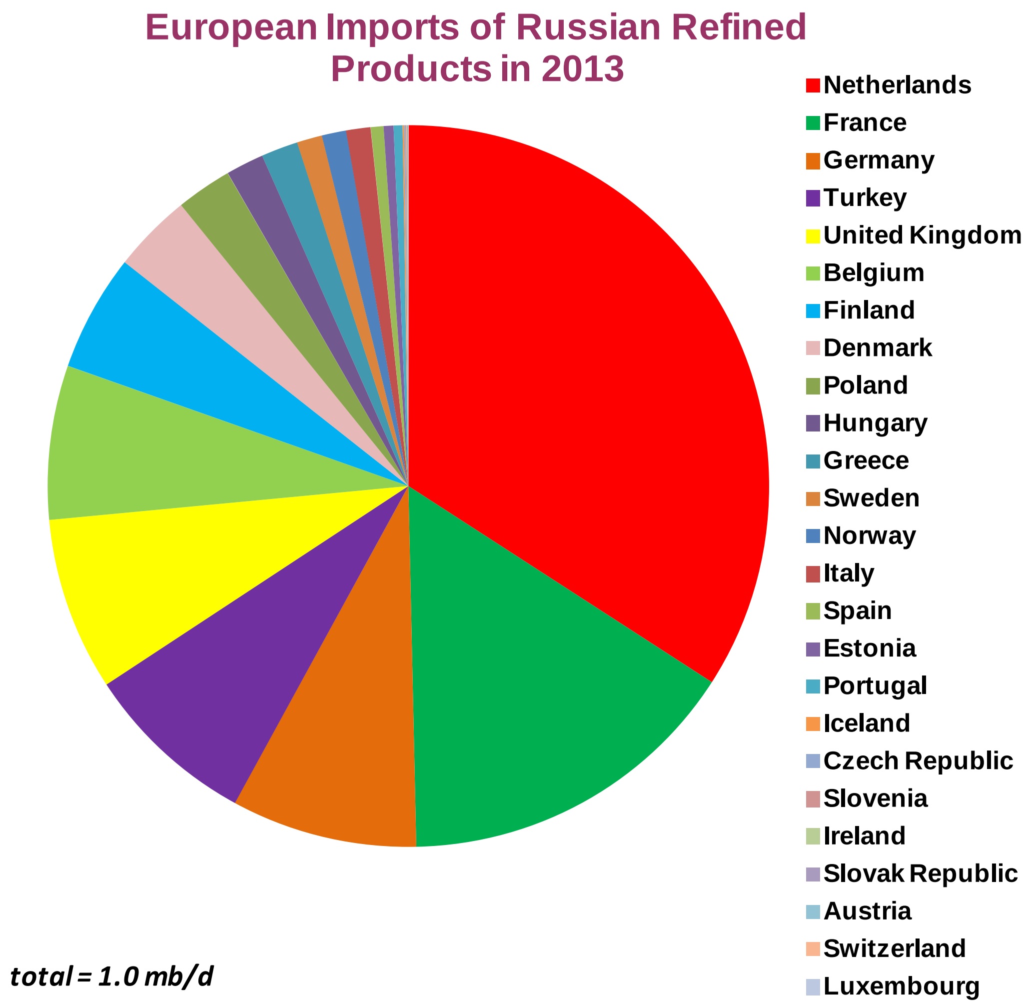
Refinery margins, utilization remain under pressure amid surplus capacity





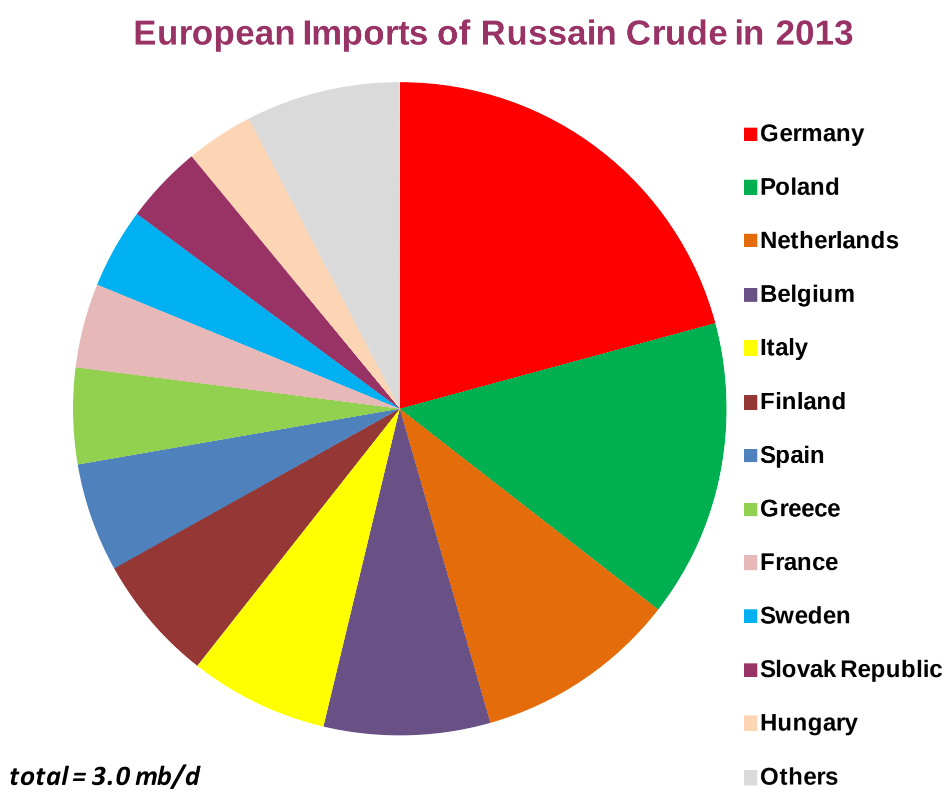
- **To bring utilization rates up to 2006-2008 levels (when margins were healthy), another 4.8 mb/d of capacity would have to be cut, whether through plant closures, projects delays or cancellations**

EU-Russian product trade on the rise



- Russian tax incentives for product exports
- Netherlands and France account for 50% of trade
- Germany, Turkey, UK, Belgium for more than 45%

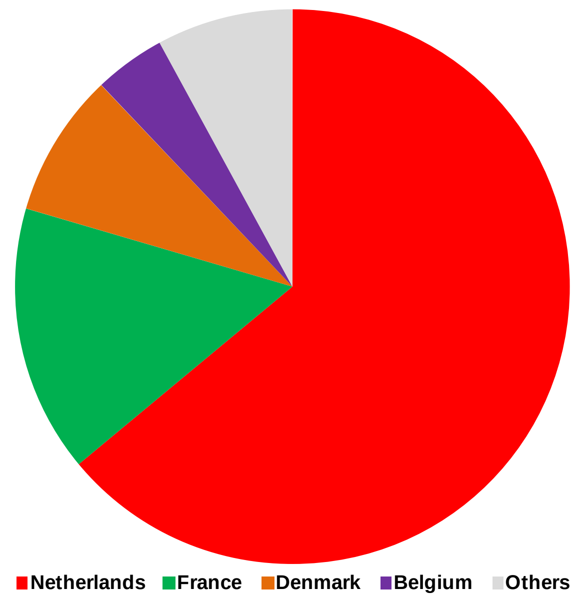
EU-Russian crude trade: too deep to fail?



- OECD Europe gets 36 % of its crude from Russia
- Russia exports 71 % of its crude to Europe
- 4 countries account for >50 % of the trade: Germany, Poland, Netherlands, Belgium
- Declining trend

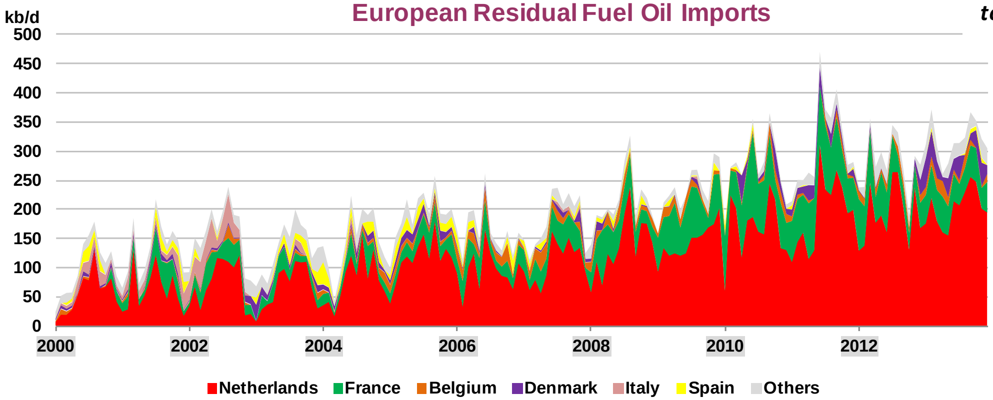
Russian RFO exports to Europe

European Imports of Russian Residual Fuel Oil in 2013

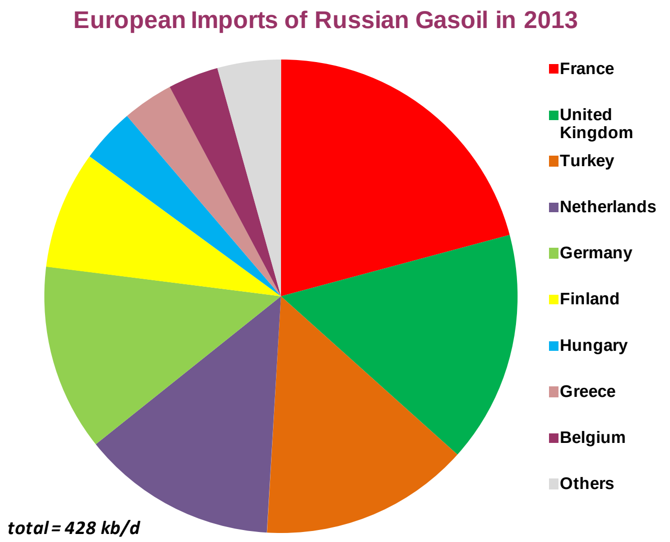


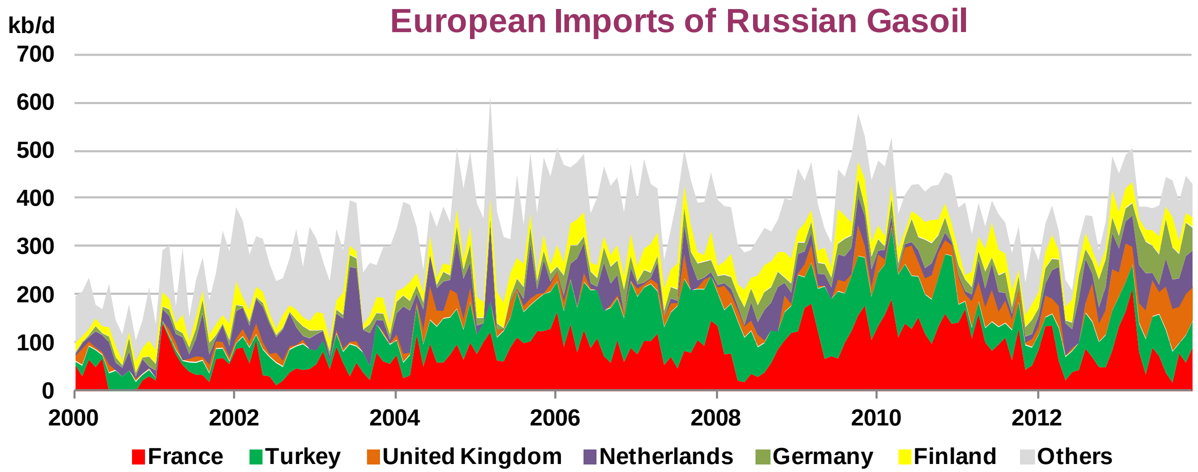
total = 320 kb/d

European Residual Fuel Oil Imports



Russian gasoil exports to Europe





Thank you

Further questions: OilMarketReport@iea.org