Medium-Term Market Report 2014

Changing Global Petroleum Product Trade Flows

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Market Analysis and Forecasts to 2019
Crude trade shifts further east

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

- Projects slip in Latin America
- China stalls new projects on looming surplus capacity, corruption scandals, pollution concerns
Middle East emerges as large product exporter

- 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

- 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
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 2019¹

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

- 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%

European Imports of Russian Refined Products in 2013

- Netherlands
- France
- Germany
- Turkey
- United Kingdom
- Belgium
- Finland
- Denmark
- Poland
- Hungary
- Greece
- Sweden
- Norway
- Italy
- Spain
- Estonia
- Portugal
- Iceland
- Czech Republic
- Slovenia
- Ireland
- Slovak Republic
- Austria
- Switzerland
- Luxembourg

total = 1.0 mb/d
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

European Imports of Russian Crude in 2013:

- Germany
- Poland
- Netherlands
- Belgium
- Italy
- Finland
- Spain
- Greece
- France
- Sweden
- Slovak Republic
- Hungary
- Others

Total = 3.0 mb/d
Russian RFO exports to Europe

European Imports of Russian Residual Fuel Oil in 2013

European Residual Fuel Oil Imports

total = 320 kb/d
Russian gasoil exports to Europe

European Imports of Russian Gasoil in 2013

European Imports of Russian Gasoil

total = 428 kb/d
Thank you

Further questions: OilMarketReport@iea.org