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Asian refiners forced to get creative to stay competitive

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Faced with competition from mammoth new refineries in the Middle East and soft fuel demand in key markets, Asian refiners are trying a variety of tactics to cope from investing in refineries in emerging markets to using cheaper energy sources.
Less complex and older refineries in Asia, however, might be forced to cut run rates or shut, industry executives said at an energy conference.
“We have to explore ways and means to survive the decline in demand and try to maintain refining capacity,” vice-president Michio Ikeda of JX Nippon Oil & Energy Corp said on the sidelines of the Asia Oil and Gas Conference in Kuala Lumpur.
Japan’s largest refiner is considering investments in markets such as Vietnam and Indonesia and also increasing petrochemical production.
It is also using lower cost energy sources such as bitumen and petroleum coke, and alternative feedstocks such as naphtha, reformate and vacuum gasoil, Ikeda said.
Japan’s Idemitsu Kosan Corp has started construction at its joint project in Vietnam, while Asia’s largest refiner Sinopec also plans to upgrade a refinery in Indonesia.
South Korean refiners have lifted output of lubricant oil, the feedstock for engine oils and greases, which helped them weather an industry downturn last year.
Elsewhere, the Philippines’ Petron Corp is increasing output of high value cleaner fuels.
As Saudi Arabia and the United Arab Emirates add at least 1.2 million barrels per day of new capacity between 2014 and this year, Asian refiners are being forced to find new growing markets.
The Middle East will for the first time in a lengthy period start exporting gasoline by the end of the year, oil consultancy FGE’s President Jeff Brown said.
Chinese and Indian refiners have shipped oil products to Australia despite higher freight charges and India’s Reliance Industries is gradually increasing market share in East Africa to meet fuel demand.
“What’s important is to find homes for the products exported from Japan, so any market is OK as long as they absorb the products,” JX’s Ikeda said.
The surplus capacity might force less efficient refineries to cut operating rates or shut, executives said.

“Refineries near coasts may become more valuable as import terminals,” Hamza Khan, senior commodity strategist at ING, told the Reuters Global Oil Forum last week.

Still refining margins could increase over the next few years with no new major project expected to come onstream at least until 2019, experts said.

“With the slowdown in China and also closures slated in Japan, Taiwan and Australia, demand will grow faster than crude distillation capacity over 2015 to 2020,” FGE’s President Jeff Brown said.