Examining the Regional Supply and Demand Imbalance

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Agenda

• European product demand and refinery supply outlook

• Future product trade flow requirements

• Conclusions: implications for storage
European demand outlook: main highlights

• Overall product demand estimated to have fallen by 2.2% in 2012
  ✓ Continuing decline in demand for gasoline and fuel oil compounded by weak middle distillates markets
  ✓ Growth prospects in 2013 likely to be limited by weak economic outlook

• Gasoline demand in structural decline
  ✓ Increasing penetration of diesel cars in vehicle fleet
  ✓ Improving economy and lower emissions of new-generation gasoline engines

• Greatest long-term growth potential in middle distillates
  ✓ Increased air traffic and improved aircraft fuel economies likely to moderate jet fuel growth
  ✓ Commercial diesel fuel demand likely to recover with GDP; private diesel demand will continue to be supported by fleet turnover

• Decline in heavy fuel oil demand expected to slow over medium term
  ✓ Effects of IMO specification changes on bunker markets in 2015 expected to result in one-off switch to gasoil, especially in Northern Europe
Real GDP growth in Western Europe: how soon a recovery from the second recession for the Eurozone?

(Annual percent change)

Source: IHS Global Insight.

Provisional

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European refined product demand: increase in diesel while gasoline and heavy fuel oil demand decline

Provisional. Excludes refinery fuels

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European product demand outlook: continuing rise in the proportion of middle distillates

2011
688 million tonnes

2025
694 million tonnes

Provisional. Excludes refinery fuels
Looking ahead, the growth of bunker fuels will outweigh decline in industry/power – until LNG comes in play.
European trade flows: strong reliance on middle distillate imports set to continue

- European products markets remain heavily reliant on trade to balance supply with demand
  - Net middle distillates imports represented 16% of domestic demand in 2010 compared with 6% in 2000
  - Net gasoline exports represented 31% of refinery production in 2010 compared with 9% in 2000
- Further increases in gasoline exports expected to be limited
  - Flattening out of gasoline demand in United States and increasing use of ethanol restricting potential for further imports
  - Additional refinery capacity investments in Middle East / India will add to East-of-Suez supplies
  - Export market developments likely to be restricted to Africa and Latin America
- Gasoil imports expected to continue rising to 2020, even allowing for additional European refinery investments over next five years
European refinery capacity outlook: significant additional hydrocracking capacity required by 2030
European product trade flows: gasoline and middle distillates remain most out of balance

Note: Provisional outlook. Illustrates net European trade only: gross trade includes imports and exports of each product, with significant trade within the European region.
Estimated gross trade flows in 2025 are significantly higher

**Gasoline**

- Production: 120 million tonnes
- Imports: 80 million tonnes
- Exports: 140 million tonnes
- Supply Adjustments: 60 million tonnes
- Demand: 200 million tonnes

**Gasoil / Diesel**

- Production: 350 million tonnes
- Imports: 50 million tonnes
- Exports: 350 million tonnes
- Supply Adjustments: 150 million tonnes
- Demand: 450 million tonnes

*Estimated gross gasoline trade in 2025: 113 million tonnes*

*Estimated gross gasoil/diesel trade in 2025: 242 million tonnes*

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Intra-European trade flows are a significant component of total Regional products trade.
The European products imbalance: implications for storage

• The continuing likelihood of European demand patterns outpacing changes in refinery supply is expected to result in net European trade flows for all main products increasing in the long term
  ✓ Increased net gasoil / diesel import requirements of 10 million tonnes by 2025
  ✓ Net exports of gasoline projected to increase by 12 million tonnes by 2025
• Gross trade volumes – and thus storage requirements – will continue to be significantly higher
• Intra-European trade flows will remain a significant component of total trade
  ✓ Approximately 25% of gasoline and 36% of gasoil / diesel flows
• Storage volume requirements also likely to be affected by non-fundamental requirements – paper trades, strategic storage, futures market plays, etc.
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