Key Findings from Our Middle East Refining Forecast

Stratas Advisors

This excerpt is from a report by Stratas Advisors’ Global Refining and Products team. Subscribers have access to the full report.

In a nutshell, here are five fundamentals about refining in the Middle East that are helpful to know:

• The Middle East is the top petroleum-producing and exporting region in the world. In addition to having the world’s largest crude oil reserves, the Middle East contains vast natural gas reserves that contribute to its production of condensate and natural gas liquids (NGLs). In the long term, the Middle East will continue to play a pivotal role in supplying the world’s crude oil requirements and filling the global shortfall in refined products.

• The demand for refined products will grow strongly in the Middle East. A strong push in Iran to remove subsidies and increase gasoline production helps balance regional supply and demand for gasoline. Developments in Iran and aggressive refinery construction in Saudi Arabia inevitably leads to the disappearance of a significant gasoline market available to European refiners. The Middle East will emerge as a significant supplier of ultra-low-sulfur diesel (ULSD).

• The Middle East is expanding refinery capacity aggressively to capture the Asian and European markets. However, there may be an interim period of even stronger downward pressure on refinery margins than exists now, unless the current rationalization — especially in Europe — continues. The new, large, energy-efficient projects coming onstream first will be better positioned to take advantage of favorable market conditions as growing midterm overcapacity will put pressure on the economic viability of expansions from 2017 to 2020. In the long run they will need all of the capacity and more to meet growing demand in Asia, Africa and their own region.

• The Middle East has no regional set of common product specification standards. Gasoline and diesel specifications in each country are, for the most part, driven by individual processing capabilities. The lack of common product specifications has limited the region from reaching its full potential for product trading among its refining players. Adopting common gasoline, middle distillate and heavy fuel oil specifications (like European specifications) across the region would increase product-trading opportunities and reduce seasonal product shortages.

• IMO set the global sulfur-reduction program for marine fuels in which sulfur content will be lowered to 0.5 wt% for bunker residual fuel and 0.1 wt% for marine distillate and will kick-in in 2020. This could pose additional challenges for Middle
Eastern refiners because of its focus on light product desulfurization for clean transportation fuels and because of the high-sulfur content of indigenous crude oil.