Regional Refinery Margins Outlook 2015-2035

Stratas Advisors

This segment of a report is from Stratas Advisors’ Global Refining & Products service.

The decrease in the WTI-Brent differential has resulted in a drop in the profitability of refinery margins in the US. Although the refinery margin has reduced in the short term, refiners’ investment in conversion, hydroprocessing and light oil processing capacity will keep the margins strong in long term in the US.

The difference between the value of the refined products and the cost of the feedstock delivered to the refinery is indicative of the refinery margins. However, the refinery complexity and configuration, type of crude processed, capacity utilization and refined product supply/demand dynamics (which influences the prices), geographical position, product slate, etc. are major drivers of higher refinery margins in the US.

The regional assessment of the refinery margin outlook from 2015 to 2035 is discussed below.

Africa Refinery Margin

The present refinery margin in Africa is 5 $/bbl. By 2020, Africa's refinery margin will be above 7 $/bbl in 2020 and will finally increase up to 12 $/bbl by 2035. Africa will improve in the refinery-complexity rankings after adding additional hydroprocessing capacity in next five years. Further improvement in domestic production of cheaper refinery feedstock will help Africa margins improve.

Asia Refinery Margin

Asia's current refinery margin is 8 $/bbl. The refinery margin will decrease to 5 $/bbl by 2025 and then rebound to 10 $/bbl by 2035. The main factor bringing down Asian refinery margins are the import costs of crude, condensate, NGL and bio-fuels. Additional capacity coming up in Asia (China Tea Pot refineries), in addition to drop in demand of gasoline in Europe, will make the refinery products cheaper in Asia, and will weaken the refinery margins. Asia refinery capacity improvements in hydroprocessing, the integration of petrochemical units in refineries and improvement in refinery complexity will help Asia recover refining profitability in the long run.
CIS & Russia Refinery Margin

The CIS & Russia refinery margin is 7 $/bbl. On one hand, CIS & Russia is making investments to improve fuel oil and to help naphtha have valuable refinery products margins, but on the other hand its oil tax regime will counterbalance the benefit. As a result refinery margin will drop to 5 $/bbl in 2020 and then will see a recovery to 12 $/bbl by 2035.

Europe Refinery Margin

Europe's refinery margin will be in the range of 6-7 $/bbl until 2017. Margins in Europe show a clear downward trend through the forecast period. Refinery margins will drop to 5 $/bbl and will keep decreasing to reach 3 $/bbl by 2035, driven by declining demand of lighter fuels (gasoline and diesel) and a reduction in downstream capacity, resulting in reduced competitiveness in the global market.

Latin America Refinery Margin

Source: Stratas Advisors, 2016

Latin America's current refinery margin is 6 $/bbl. The refinery margin will grow marginally by 2020 due to higher volume of gasoline and distillate availability in the global market for export purposes at very competitive price. Latin America's refinery margin will increase at a slow pace to 7 $/bbl by 2035. The delay in refinery investment and the availability of cheaper refinery products from exporting regions such as North America, Europe and the Middle East will impact product prices and ultimately refinery margins.

Middle East Refinery Margin

The Middle East's current refinery margin is 8 $/bbl, which will decline below 3 $/bbl by 2020. Middle East refineries are investing heavily in new capacity addition to capture the downstream exports market share; however, they face stiff competition in the export markets for both gasoline and middle distillate. The advantage of adding secondary processing capacity units will help improve the margins after 2020. The refinery margin will increase to 8 $/bbl by 2035.

North America Refinery Margin

The North America refinery margin is 11 $/bbl and will drop to 9 $/bbl by 2017 due to reduction in price differential between WTI and Brent. It is expected to improve to 12.66 $/bbl by 2025 and to 13.35 $/bbl by 2035. The healthy growth projected for North America will be driven by exports to Latin America, Africa and Asia, as the fuel quality is better and suitable for biofuel blending such as ethanol.

You May Also Like...
Our subscription services include online access to a wealth of comprehensive reports like the one above, as well as related interactive data tools and databases.

- North American Natural Gas
- Global Natural Gas
- North American NGL