

APPEC 2016: Asia to look beyond the Middle East for its marginal barrels

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- * Delegates optimistic about growth in Asian demand
- * Asia will struggle to raise its crude production
- * The region's willingness to diversify will boost competition

Asia's dependency on imported crude oil is set to grow in coming years and while the Middle East will remain the largest supplier, the marginal barrel will increasingly come from other regions, intensifying the battle for market share, oil industry executives said this week at the S&P Global Platts Asia Pacific Petroleum Conference 2016.

"Theoretically, the Middle East could supply the entire Asia Pacific market with crude. However, this is unlikely to happen due to diversity of supply issues," Tor Martin Anfinsen, senior vice president, marketing and trading, at Statoil said Wednesday.

Growth in oil demand in Asia is supported by new crude distillation capacity coming on stream, Otabek Karimov, head of supply, trade and logistics at Russian oil giant Rosneft, told delegates.

An additional 690,000 b/d capacity is expected to be added in 2016 and 730,000 b/d in 2017, Karimov said.

"This is a big increase in demand for crude."

While the capacity is expected to increase, crude production in Asia is forecast to drop due to aging fields and underinvestment, which would raise Asia's dependency on imported crudes.

"We expect crude production to decrease by roughly 14% in five years," Karimov said, adding that the biggest decline in investments recently has been in Southeast Asia. "It is minus 38%. This is all leading to a dependency on imports."

DEMAND OUTLOOK

Global oil consumption will continue to grow steadily until 2020 after which annual oil demand will level off in most regions, except Asia Pacific, which will represent 80% of the demand growth from 2015 to 2025, Statoil's Anfinsen told delegates.

By 2020, China is expected to become the world's largest crude importer despite slowing GDP growth and increased energy efficiency measures, he added. India's oil imports is projected to grow by 6 million b/d by 2040. By 2035, India will become the second largest crude oil importer, he said.

"There is a lot of incremental oil that needs to be supplied here," he said.

China, the region's largest indigenous producer, will experience a drop in its own production from 4.3 million b/d to 3.9 million b/d between 2015 and 2025. This will add to growing demand, he said.

Asia Pacific refiners have already started to look beyond the traditional Middle East sources and are increasingly importing from Russia, Latin America and Africa.

China's independent refiners, the new kids on the block, have also been aggressively diversifying supplies. They imported 44 grades from 24 countries including Gabon and the UK over February and June 2016 compared with just 10 grades in the previous year.

The increase in crude imports from regions outside the Middle East is driven by structural changes such as falling crude oil demand from European refiners and rising crude production in the US. Also, Asian countries are implementing energy security policies to ensure uninterrupted supplies.

"These changing dynamics call for a rethink of supply strategy for players in this region," he said.

Anfinnsen said that there are three key features that will be important for success in the Asian market -- flexibility, reliability, and trust.

"Refiners need to be shown that a cargo can be delivered on time, they need to be able to choose from a broad menu when it comes to volumes, grades, etc, and they need to have the trust that the supplier is a trustworthy business partner," Anfinnsen said.