

Analysis: Chinese independent refiners' crude oil imports set to slow on quota issues

Platts.com, 21st Mar 2017

Crude imports by China's independent refiners are expected to slow down in the coming months as several refiners have used up most of their allocation from the first round of import quotas and will need to wait until June for the second round before resuming purchases.

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Independent refiners need government-allotted quotas to import crude oil. A total of 45.64 million mt of quotas were allocated to 19 independent refineries in the first round in January.

The refiners have submitted applications for a second batch of quotas, but the government is only expected to allocate fresh quotas in June leaving the refiners with the option of either reducing throughput or buying barrels from the domestic spot market, market sources said.

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China's independent refineries imported a total of 60 million mt (1.2 million b/d) of crude oil in 2016, according to S&P Global Platts estimates.

This represented 16% of China's total imports of 381 million mt in 2016.

The quota allotted to each refiner in the first round was based on the volume the refiner had imported in the first 10 months of 2016.

This resulted in some refiners getting sufficient quotas in the first round to sustain themselves for the entire year, but refiners that imported a relatively small volume in the first 10 months of 2016 are suffering from a quota shortage, especially if they raised runs this year.

The refiners in this category include Shandong-based Chambroad Petrochemical, Wonfull Petrochemical and Haiyou Petrochemical.

REFINERS APPLYING FOR NEW QUOTAS

Chambroad, Wonfull and Haiyou were awarded import quotas of 780,000 mt, 1.67 million mt, and 430,000 mt respectively in the first round. The volume is significantly below their annual ceiling quota of 3.31 million mt, 4.16 million mt and 3.2 million mt, respectively.

The ceiling quota is set by the National Development and Reform Commission and sets the maximum volume a refiner can import in a given year. The actual quota is allotted by the Ministry of Commerce and cannot exceed the ceiling quota.

"If we don't get the new quota by the end of this month, we will have to lower our production," a source with Chambroad Petrochemical said, adding that the company had heard that the new round was unlikely before the end of June.

Chambroad Petrochemical would have imported a total of 593,000 mt crudes over the first three months of the year, leaving 187,000 mt of quota available, below its typical monthly consumption of around 250,000 mt.

"We hesitate when booking cargoes for April and May arrivals as we are not sure whether we have enough quota to bring them in," the source with Chambroad said.

Wonfull was expected to receive a total 1.5 million mt of imported crude oil by the end of April, leaving only around 170,000 mt quota available for May delivery, a refinery source with the company said.

"It is time to book May delivery cargoes. Without additional quotas, we will have trouble maintaining our throughput at 300,000 mt/month," the source said.

Haiyou faces less of an issue -- the refinery has fixed to import around 269,000 mt of crude oil in Q1, leaving it with 161,000 mt of quota available for the rest of the year -- but it may apply for additional quota in order to have more flexibility.

China's independent refining sector has lifted utilization rates this year. In January and February, the Shandong-based independent refineries operated their plants at between 58% and 61%, up from 53%-54% a year ago, according to Beijing-based energy information provider JYD.

The refiners will either need to lower throughput or buy barrels from the domestic spot market if the new allocations are not issued on time, market sources said.