

## **China's Shandong independent refineries plan to consolidate; analysts skeptical**

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Independent refineries holding crude import quotas in China's Shandong province are planning to consolidate into a single corporate entity, a move that would help to optimize their entire value chain, from feedstock purchases to products marketing, which in turn will strengthen their competitive edge.

An official document from the Shandong Economic and Information Technology Committee on Friday said that SEITC, on behalf of the provincial government, had approved the setting up of Shandong Refining Energy Group Corp., a proposal which was brought up by the Shandong Oil Refining Association, an independent organization.

Shandong Oil Refining Association could not be contacted for comments on Monday.

While no time period has been mentioned for setting up the corporation, Dongming Petrochemical and Qingyuan Petrochemical are expected to be the two initial members of the new refining corporation, the document said.

The proposal has thrown open an invitation to other independent refineries holding crude import quotas to join the new refining corporation.

The new corporation will aim to coordinate and optimize the members' development planning, crude procurement, logistics, oil products marketing, as well as retail outlet management, by mutual sharing of resources and infrastructure, according to the document and Dongming's Zhang Liucheng.

In an effort to thwart the challenge from the new refining capacity -- which will total 60 million mt/year in Liaoning, Zhejiang and Jiangsu once all the new capacities come on stream by the end of 2020 -- it is high time the Shandong-based independent refineries united and formed a joint company, said Zhang.

A Beijing-based analyst was, however, skeptical about the plans to form the new corporate group.

Before the plan to form this new refining corporation, Dongming had been trying to push for procuring crudes jointly through a union that it founded in early 2016. But only a few refineries have been procuring crudes from the union, even though around 20 independent refiners actually joined the union, sources said.

Meanwhile, not all of the independent refineries are optimistic about forming the new corporation, as it is difficult to combine all those refineries, with each refiner having a different business strategy.

"Each independent refinery is unique and adopts a different strategy. It will be quite difficult to coordinate the different interests of the refiners," said a source with Jincheng Petrochemical, an independent refinery.

Shandong has around 130 million mt/year independent refining capacity, which accounts for about a quarter of China's total refining capacity. But the refiners have varied refining capacities. While only 10 of them have a capacity of over 5 million mt/year, the average capacity is less than 3 million mt/year, according to Zhang.