

Collapse in oil demand threatens to halt 80% of new refinery projects

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More than four out of five refinery construction projects face cancellation as the worldwide collapse in oil demand wipes out all but those developments with strong government backing.

In a report, Wood Mackenzie, the industry consultant, concluded that only 30 of the 160 refining projects announced since 2005, which should be completed in the next two to seven years, would now go ahead.

The sharp drop in the number of new refineries is related to the collapse in the refiner's profit margins, known in the industry as "crack spreads".

The scale of the cutback is the starkest illustration yet of the severity of the collapse in fuel demand and the effect on the refining industry.

Until a few months ago profit margins were strong and refiners were struggling to meet high demand. A widely touted supply bottleneck had been caused by the lack of investment in refining in the lean years of the 1990s.

Of the 30 refineries still on track, almost all have the backing of large national oil companies, which are set to provide 11m of the 12m barrels of new refining capacity expected to come on stream. Saudi Arabia's Saudi Aramco and China's Sinopec will in aggregate account for 2m of those barrels, according to Wood Mackenzie.

This will significantly shift the balance of power in refining away from the west, whose integrated oil companies and independent refiners have dominated the sector from the start more than a century ago.

Two-thirds of the refining capacity additions are expected to be in Asia and the Middle East. But even there, delays are being announced. Total, France's biggest energy group, on Wednesday said its \$10bn (£6.8bn) Jubail refinery construction project in Saudi Arabia had been delayed because of market uncertainties.

The news came just a week after ConocoPhillips announced the delay of a similar refinery project in Saudi Arabia.

Meanwhile, refiners in the US and Europe have announced dismal earnings and companies are considering the shutdown of some refining units.

Thomas O'Malley, chairman of Petroplus, Europe's biggest independent refiner, last week predicted refinery production cuts across Europe and possible closures in the US. "Oil consumption will not grow and may even shrink," he said.

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