

## Media Monitoring

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### ANALYSIS-PetroChina trade dominance may edge out small rivals

By Yaw Yan Chong

SINGAPORE, Nov 3 (Reuters) - PetroChina's dominance of the globally crucial Asian fuel oil market after merging its trading operations with Singapore Petroleum Co (SPC) will put smaller rivals at risk in a sector burdened with storage overcapacity.

The Chinese state refiner could also become a major trading and pricing force for diesel and jet fuel if it decides to use the SPC refinery barrels for spot trading, adding to the hefty flows from its plants in China to regional markets, traders say.

PetroChina is set to absorb SPC's trading business by early next year after the recent completion of its \$1 billion takeover of the Singapore firm, expanding its fuel oil storage capacity to rival the market's top players and give it more demand outlets in the world's largest marine fuel market.

This marks the first sign of consolidation in an industry long dominated by Western majors and traders such as BP , Glencore and Vitol and medium-sized players such as LUKOIL, Cargill, Koch, Kuo Oil, Chemoil, FAL Oil, Itochu and Sumitomo.

"The biggest impact will be on fuel oil, where PetroChina is already the largest volume player. Now, they will also have SPC's refinery production, its storage capacity and its bunker outlets," a Singapore-based fuel oil trader said.

"The combined entity will probably become the largest bunker player in Asia, while the additional tank capacity will allow more flexibility, especially when it comes to pricing interests and blending cargoes."

In an environment where traders must fight for supply to fill about 9 million tonnes of tanks, including floating storage, and battle for just 4-5 million tonnes of fuel oil demand, smaller players with less storage and blending flexibility may find their market share and margins eroded by larger companies.

#### ASIA'S LARGEST FUEL OIL TRADER

The merged entity will have up to 450,000 tonnes of mostly ex-wharf bunker sales a month, or 14 percent of the average monthly levels of around 3 million tonnes in Singapore, the biggest fuel oil outlet in Asia.

Most of the combined firm's fuel oil will flow from Venezuela, where PetroChina has 800,000-1.1 million tonnes monthly into Singapore and China, with another 80,000-100,000 tonnes coming from Singapore Refining Co (SRC).

For FACTBOX-Market impact of PetroChina-SPC trade merger, click: [ID:nSP496565])

and: FACTBOX-PetroChina's Asia trading and downstream outfit [ID:nSIN476326]

"It's a good fit actually -- PetroChina has much more volumes than its bunker outlets can take and most of their volumes are sold into the spot cargo market. SPC had more bunker demand than their refinery could supply," another fuel oil trader said.

"So now, more of PetroChina's Venezuelan cargoes will be channelled to the bunker pool and it will have less available for the cargo market."

The incremental volumes will fill the joint firm's expanded storage capacity, which will total 550,000-600,000 cubic metres, matching the market's biggest players.

This expansion will improve PetroChina's flexibility in fuel oil blending and for pricing interests, giving it an edge next year in what is expected to be a harsher market where storage overcapacity will sharpen competition for supply and demand.

"They have their own supplies and are at more than sufficient volumes to cover their bunker requirements as well as to sell as cargo lots to other traders," added the trader.

#### POTENTIAL DOMINANCE IN DISTILLATES

Unlike fuel oil, which is mainly traded as spot cargoes, PetroChina's office in Singapore mainly markets clean products such as distillates, gasoline and naphtha under term contracts.

They trade some spot cargoes of middle and light distillates, averaging 150,000-200,000 tonnes of diesel and jet fuel and 20,000-25,000 tonnes of naphtha. These pale in contrast to the 400,000-500,000 tonnes each traded by bigger players such as Hin Leong, Vitol, BP and Glencore.

The merger will give PetroChina more volumes of middle and light distillates than it trades now, potentially offering it greater influence in the daily spot pricing market and bigger market share in the physical market, particularly for diesel.

It will have access to SPC's monthly output totalling 1.6-1.7 million barrels of diesel and jet fuel, 1.2-1.3 million barrels of gasoline and 600,000-700,000 barrels of naphtha, based on SPC's half-share of Singapore Refinery Company's 285,000 barrels per day (bpd) capacity.

However, most of the SPC's clean oil products, particularly naphtha, are under term contracts, mainly for a one-year term and with varying expiry periods. The key will be whether PetroChina will divert most, if not all, these contracted distillates to crank up its spot market trades when their term ends.

This will hinge on whether, or when, the market -- in the dumps since the first quarter, forcing traders to store distillates in floating storage worldwide -- starts recovering and prompts more traders to trade on the spot market.

Sources said PetroChina has yet to decide on what to do with the barrels when the contracts end. It could quite easily become a dominant player of middle distillates as well, if it uses the SPC barrels for trading purposes when the market recovers.

Potentially it could bring its refinery barrels from China into the trading mix, particularly since exports from the country have risen by almost 10-fold this year.

"It will depend a lot on the state of the individual markets at the time. But PetroChina certainly could expand their influence on the trading market by making some of the refinery barrels available for spot trading," a gas oil trader said.

"For now, with the distillates as poor as it is, it wouldn't make sense to have supply when there is hardly any demand." (Additional reporting by Seng Li Peng; Editing by Ramthan Hussain)