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By Manan Goel

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The might of oil refiners along the New Silk Road – stretching from Beijing to Lagos – is gaining influence, especially as European suppliers shrink back after more than a century of dominance. China is by far the refining behemoth along the *New Silk Road*, closely followed by a highly competitive India and an increasingly well-equipped Gulf. The vast majority of the 7.1 million barrels a day (b/d) of new distillation capacity expected in 2015-2020 will be coming from the Middle East, China and the wider Asia-Pacific, according to OPEC's 2015 World Oil Outlook.

China's refining capacity is expected to reach 14.4 million b/d this year, rising by 1.3% on last year, thanks to 'teapot' refiners in China's eastern provinces. A wave of excess refined products - notably diesel, kerosene and gasoline – is piling pressure on Asian refining margins, especially since the second half of 2015. China is now allowed to export 1.8 million barrels per day of diesel – double the 2015 figure. China's influence on exports could deepen if domestic demand weakens and storage becomes limited, enabling Beijing to offer highly competitive pricing and rival exports from the Gulf and India, for example.

Meanwhile, India is competing to climb the chain of power along the New Silk Road and aims to become a refining superpower by 2025 – sharpening the country's competitive edge on the global energy stage. India's state-owned refiners are taking advantage of oil prices at sub $40 per barrel as they negotiate purchase deals with OPEC members for the first time. Talks are still underway between Gulf producers – notably Saudi Arabia, Kuwait and the UAE – with Bharat Petroleum, Hindustan Petroleum, Indian Oil and Mangalore Refinery and Petrochemicals, which collectively represent 60% of India's 4.6 million b/d capacity.

Ramping up refining supply in the Gulf, which sits in the heart of the New Silk Road, is increasingly front and centre of countries' oil playbook and investment strategies. Traders at refining companies are fixed their attention on locking in Asian and European clients, while appetite for East African opportunities is also growing.

Gulf refiners are widening their meet-and-greet efforts in Europe as Russia meanwhile – historically Europe's dominant supplier – tries to elbow its way into Asia. European sales are a growing portion of OPEC members Saudi Arabia and Iraq's portfolio – Poland and Sweden are on the hit list – as well as Kuwait, which already has the Q8 marketing and retail arm in Europe.

Kuwait's refining supply will be supported by state-owned oil firm KPC's downstream subsidiary KNPC's new $15 billion Al Zour refinery on the outskirts of Kuwait City. The 615,000 b/d facility is set to be one of the largest in the region when it starts up in late-2019 and will boost Kuwait's marketing efforts abroad. In Asia, KPC is deepening Kuwait's refining footprint in Vietnam, China and Indonesia through joint ventures with the countries' state-owned energy firms. For example, KPC's downstream foreign arm KPI is heavily involved in the $9 billion Nghi Son petrochemical complex project in northern central Vietnam, with around 200,000 barrels a day of Kuwaiti crude exports expected to supply the project when it comes online in mid-2017.

On a wider note, the number of refining joint ventures and merger and acquisition (M&A) activity along the New Silk Road are expected to increase, as operators feeling pinched by the 12-year low oil price seek out financial buffers with new and better-endowed partners.

Oman is pushing ahead with a 230,000 b/d refinery at Duqm along its central-eastern Arabian Sea coastline. While the $6 billion refinery is not particularly large when compared to others in the region – the UAE's 922,000 b/d Ruwais refinery, or Kuwait's 615,000 Al Zour refinery, for example – it could evolve into geo-strategic gold when completed in the third quarter of 2020.

Another major player, Iran, could join the more established refiners along the New Silk Road after sanctions were lifted in January. Tehran has revealed plans to buy, or invest in foreign refineries in Europe, Asia and Latin America, as well as ramp up its domestic production. The country's refining infrastructure was well maintained during the sanctions, but Tehran needs a hefty cash injection to reach its downstream ambitions – more than $10 billion between 2016-2020.

Investors based in the Middle East are increasingly eyeing the significant refining opportunities along Africa's east coast, with Dar es Salaam and Nairobi heralded as emerging hot spots. Africa's annual appetite for gasoil and gasoline is expected to climb by as much as 8%, while demand for liquefied petroleum gas (LPG) has hit double digits. Refining activity will increase as East Africa quickly reacts to satisfy the demand of its thriving middle-class.

With a continent-crossing array of new clients, the collective influence of emerging refiners along the New Silk Road could herald the world's new refining juggernaut.

About the Author:

Manan Goel, **Gulf Petrochem**'s Group Director, heads the Refinery and Marketing division of the company. Associated with the Group, Manan has been instrumental in setting-up the Bitumen Processing and WFE Plant.

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Source: ***The Gulf Intelligence***

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