



POTEN TANKER OPINION



Running Out Of Gas

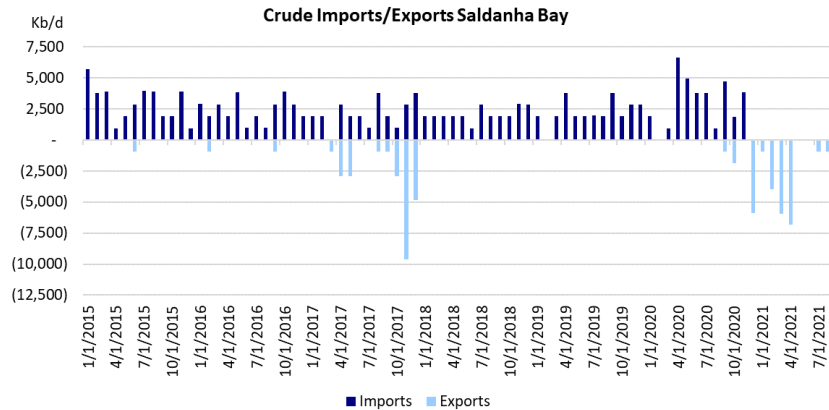
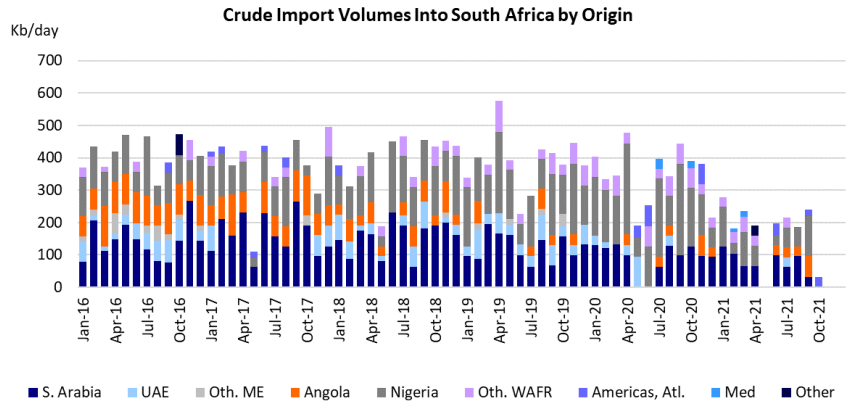
South Africa at risk of losing its refining industry

The refining industry in South Africa is under siege and could undergo major changes in the wake of the Covid-19 pandemic, which hit the country hard. With limited domestic oil resources, the largely outdated refineries have to make tough choices. South Africa's refineries are too old and too small to compete in the global market with large, efficient export refineries. Even for the domestic market, they have to modernize if they want to be able to produce the low Sulphur fuels that the South African government mandates from September 2023. At the moment it appears unlikely that South Africa's refineries will survive. According to the South Africa Petroleum Industry Association (SAPIA), the country, which currently has more than 700,000 b/d of refining capacity, risks becoming fully dependent on refined product imports by the end of 2023.

South Africa's refining industry has a long history. Major energy companies (Shell, Caltex/Chevron, Total, etc.) built several refineries in South Africa during the 1950s and 1960s. Over the years, sometimes under pressure from anti-apartheid protests and at times due to poor performance, several Western companies divested from South Africa. Asian companies and traders have occasionally taken their place. The oldest refinery is the 1954 built Engen Refinery in Durban. This facility is since 1998 owned by Malaysia's Petronas. In 2018, Astron Energy, a company affiliated with global commodity trader Glencore completed the acquisition of Chevron's downstream assets in South Africa, including the 100,000 b/d refinery in Cape Town.

All of South Africa's refineries temporarily stopped production in April 2020 as Covid-19 lockdowns decimated oil demand. In July 2020, Glencore's Astron refinery was shut down because of an explosion and is not expected to be back online until 2022. The aforementioned Engen facility restarted in May 2020, but was shut down again in December due a fire. Earlier this year, the owners of the Engen refinery decided to close the plant by 2023 and convert it into an import terminal.

Since South Africa does not produce significant volumes of crude oil, the refiners historically had to import their feedstock. Most imports of crude oil come from the Middle East (Saudi Arabia and UAE) and West Africa (Nigeria and Angola). Occasionally, U.S. crude oil is shipped to South Africa as well. Prior to 2012, Iran was South Africa's largest crude oil supplier, accounting for about 27% of the country's total crude oil imports. After the U.S. and Europe imposed sanctions, South Africa halted imports from Iran and substituted their barrels with supplies from other OPEC countries. Over the last five years, South Africa imported an average of 350,000 b/d of crude oil, about 100,000 b/d in VLCCs and 250,000 b/d in Suezmaxes.



Source: Lloyd's List Intelligence

The regional storage hub of Saldanha Bay might have been the most important piece of South African oil infrastructure in recent years. Saldanha Bay is a natural harbor, located on the south-western coast of South Africa, about 65 miles from Cape Town. It is a strategic storage point with a capacity of approximately 60 million barrels. Because of its strategic location, the terminal is popular with traders looking to store crude oil. It gives them the option to ship crude to either Europe or Asia depending on regional demand and relative prices. Saldanha Bay can accommodate vessels up to VLCC size. The terminal was popular in 2020 during the Covid induced oil supply glut. As can be seen in chart 2, crude oil imports into the terminal picked up in the first half of the year, while the terminal turned into an exporter by the end of last year.

Going forward, it appears South Africa will closely resemble other countries (such as Australia and New Zealand) with an ageing refining industry that cannot compete in global markets. Crude oil movements will be mostly focused around the storage terminal of Saldanha Bay, while domestic product demand will be mostly satisfied by refined product imports. Given their proximity, Middle Eastern refineries are the most likely source of product. For the shipping market, MR product tankers are the segment that will reap the benefits.