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Situation in the Global Oil Industry and Trade in the World and in the Slovak Republic

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Summary:
The years 2008 and 2009 can be considered a turning point in the petroleum industry, and trade. The world economic crises, especially, had a great impact on the automotive fuel trade. As the Slovak Republic depends on crude oil imports, this had an even greater influence on the overall situation in the petroleum industry in the Slovak Republic. In this paper I will deal with the development of the petroleum industry, and the trade in its products, as well as the worldwide events, which are having an affect on the current situation.

Keywords: petroleum industry and trade, automotive fuel market, global economic crisis, motor fuel retail trade, Slovak association of the petroleum industry and trade

Stav petrolejárskeho priemyslu a obchodu vo svete a v SR a perspektívy využitia obnoviteľných zdrojov energie v EÚ

Lujza Jurkovičová (saok@vnet.sk)

Abstrakt:
Predchádzajúce roky 2008 a 2009 môžeme označiť v petrolejárskom priemysle a obchode za prelomové. Najmä rok 2009 bol poznačený dopadom celosvetovej hospodárskej krízy, čo sa významnou mierou odzrkadlilo v obchode s motorovými palivami. Nakoľko je Slovenská republika závislá na dovoze ropy, táto situácia o to viac ovplyvňovala celkovú situáciu petrolejárskeho priemyslu a obchodu v Slovenskej republike. V príspevku sa preto budem zaoberať vývojom petrolejárskeho priemyslu a obchodu, ktorý bol ovplyvnený dianím v celosvetovom meradle, čo významnou mierou ovplyvnilo súčasný stav.

Kľúčové slová: petrolejársky priemysel a obchod, trh s motorovými palivami, svetová hospodárska kríza, svetové ceny ropy, maloobchodný predaj motorových palív, Slovenská asociácia petrolejárskeho priemyslu a obchodu

JEL: O50, 052, F01, F14, P24

Content

Introduction

The petroleum industry and trade area is specific, and is influenced by more factors, which determine its development. It is important to understand that the Slovak Republic depends on the import of crude oil, and imports approximately 6 million tonnes of crude oil. Of the imported amount it uses about 3.1 million tonnes in domestic consumption, whilst the domestic crude oil output accounts for 2% of the crude oil consumption. Therefore, events on the world market directly influence the situation of the petroleum industry, and trade, in the Slovak Republic.

The goal of this paper is to analyze the current situation of the petroleum industry and trade worldwide, especially from the point of view of the world economic crises' impact, which has influenced significantly events in this area during the past two years. I will then evaluate every aspect, plus its impact on the Slovak market with motor fuels.

1. The Pace of the Petroleum Industry and Trade Globally

The oil industry in 2008 can be considered, in many ways, to be a breaking one. An unprecedented crude oil price increase, with its subsequent steep correction happened during one year. The extreme price volatility was implied by global circumstances, because in more than the first two quarters, it was believed in commodity markets that the world economy would expand at great speed in the coming years. However, in the last months of the year, this sentiment was replaced by fears that the world is running into a deep recession. No wonder, then, that oil prices in the first months rose from the level of over 60 USD/b up to nearly 150 USD/b, so that it was rapidly corrected to the level of around 35 USD/b at the end of the year (SAPPO 2010). The last year was also the first one, after approximately 16 to 17 years, when global crude oil consumption decreased in absolute numbers – by nearly 300 thousand barrels a day.

This development was caused by the fact that the financial crisis in the U.S. had, step-by-step, fully extended in the second half of the year to the banking sphere in Europe, as well as partially in Asia, which subsequently caused the global economic crisis.

Stoppage of loans to the business sector, increasing unemployment, the drop in household incomes in addition to huge losses on the stock markets had such a negative impact on the demand side that the supply side could not adjust to the situation quite quickly enough.

Decreased demand for oil and related products was recorded in North America, Europe and Japan, while reduced consumption was registered even in developing economies, which are still dependent on the economic condition of

the developed countries, to which most of their domestic production is exported.

Even though OPEC tried to resolve the imbalance between supply and demand by reducing oil extraction, demand was too depressed to be helped by a price re-increase. Together with the erosion of demand, the commercial stocks of oil and oil products of world largest consumers increased.

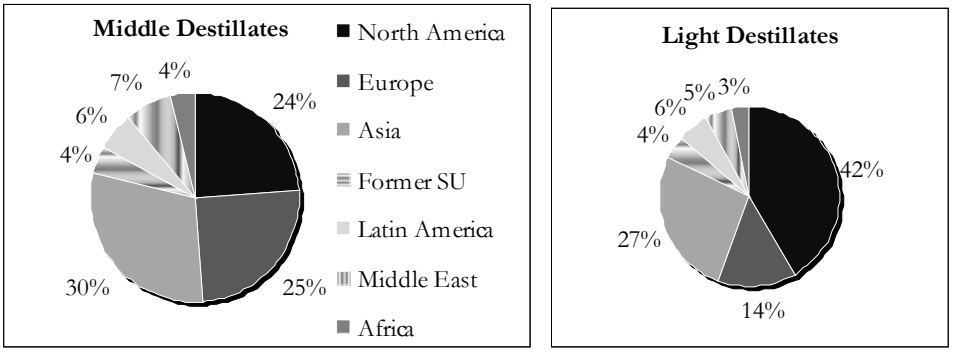
Other negative oil price signals in the second half of the year included the already published significant drop in all class of automobile sales in developed countries, followed by slowdowns in industrial production, the building industry, international trade, as well as there being quite favourable geopolitical events or climate development.

The oil industry in 2008 was traditionally influenced by developments in other commodity prices, too, as well as in the US dollar exchange rate. The US dollar was rapidly falling in the first two quarters against other world currencies, particularly against the EUR. This naturally provoked uncertainty among the oil producers, who were losing money on their export dollar incomes. When the dollar started to gain on currency markets from mid-summer, there was no reason to keep oil prices at such high levels as before, and this significantly strengthened the downward correction of prices, which was already underway in the market. The financial crisis also struck the oil market in such a way that financial investors gradually withdrew from volatile markets, such as the stock, commodity and realty markets, and moved their capital significantly into the relatively safe and stable bond markets. From this point of view, the world financial crisis was positive in the way that the so-called risk-element of the oil, and oil product, prices, resulting from the activities of globally operating financial investors, was significantly reduced towards the end of the year.

From the point of view of the key oil products, 2008 can be unambiguously called the year when automotive oil, or its intermediate derivatives, dominated (look at Figure 4).

Prices of diesel significantly exceeded the price of petrol on stock-exchanges, while the status was a reaction to the strong demand for diesel, and related products of the intermediate distillates by Europe and the developing economies of Asia and the Near East. Conversely, the global market with petrol was heavily affected, especially by the sharp drop in its consumption in the U.S.; which consumes over 40% of the world's petrol production (SAPPO 2010). Europe also negatively influenced the world petrol market, as the trend of automobile fleet dieselisation continued last year, too; even though the tendency began to taper out at the end of the year due to a significant rise in diesel retail prices.

Figure 1: Regional Consumption of Key Refinery Products (% share on global consumption)



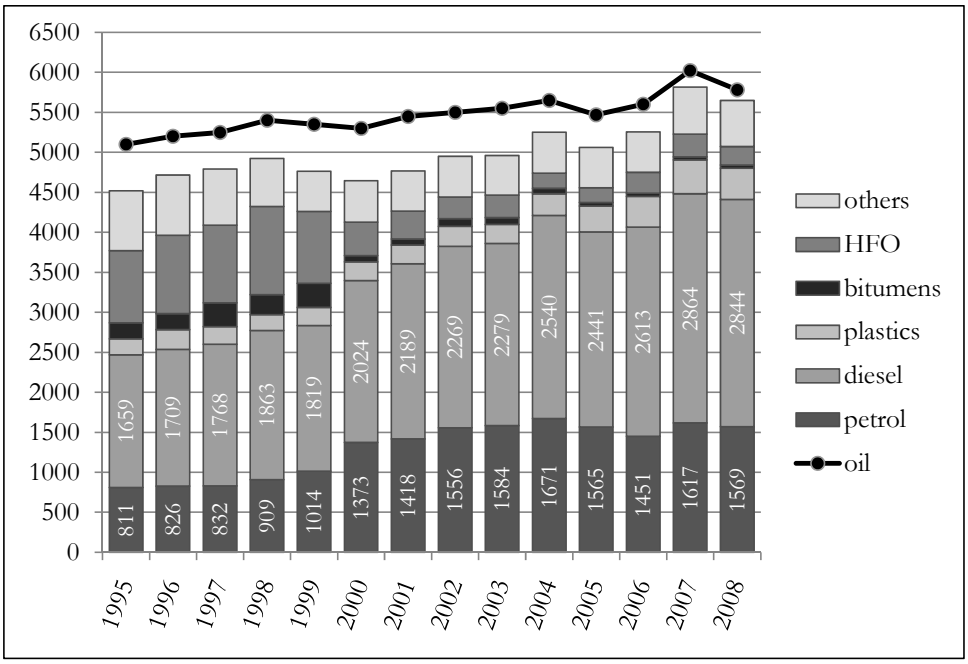
Source: EIA, USA (2009).

2. The Pace of the Petroleum Industry and Trade in the Slovak Republic

Developments in the oil industry and trade in the Slovak Republic, in 2008, fully reflected the turbulent developments in the international oil market, as well as the continued high economic growth of the Slovak economy. Crude oil was supplied to the SR in compliance with the plan. The tried and trusted transport routes – the oil pipeline Friendship from the Ukrainian border, as well as the Adria pipeline from the Hungarian Republic, were used.

In 2008, oil was processed in the Slovnaft refinery in Bratislava, where the volume of processing came to over 5.7 million tonnes per year (SAPPO 2010). Except for planned maintenance works at certain units, the production of oil and petrochemicals was continuous. Motor fuel and other valuable light products dominated the production mix, with approximately an 86% share. Hence, the Slovak refining industry with this indicator of capability to convert oil into high-noble light products re-confirmed its leading position among European refineries.

Figure 2: Processed crude oil and domestic refinery production in years (in thousands of tonnes)



Source: Annual report of Slovak Association of the Petroleum Industry and Trade SAPPO (2008).

Table 1: Domestic refinery production in years 2000–2008 (in thousands of tonnes)

Products	2000	2001	2002	2003	2004	2005	2006	2007	2008	08/07%
Motor petrol	1373	1418	1556	1584	1671	1565	1451	1617	1569	-3,3
Motor diesel	2024	2189	2269	2279	2540	2441	2613	2864	2844	-0,8
Heavy fuel oil	415	350	274	281	190	181	262	284	231	-20,2
Bitumens	79	74	95	84	67	46	41	36	41	12,2
Plastics	234	236	249	236	271	323	383	427	389	-9,9
Others	522	502	506	495	514	505	504	588	575	-2,6
Total	**4647**	**4769**	**4949**	**4959**	**5253**	**5061**	**5254**	**5816**	**5649**	**-3,2**

Source: Annual report of Slovak Association of Petroleum Industry and Trade SAPPO (2008).

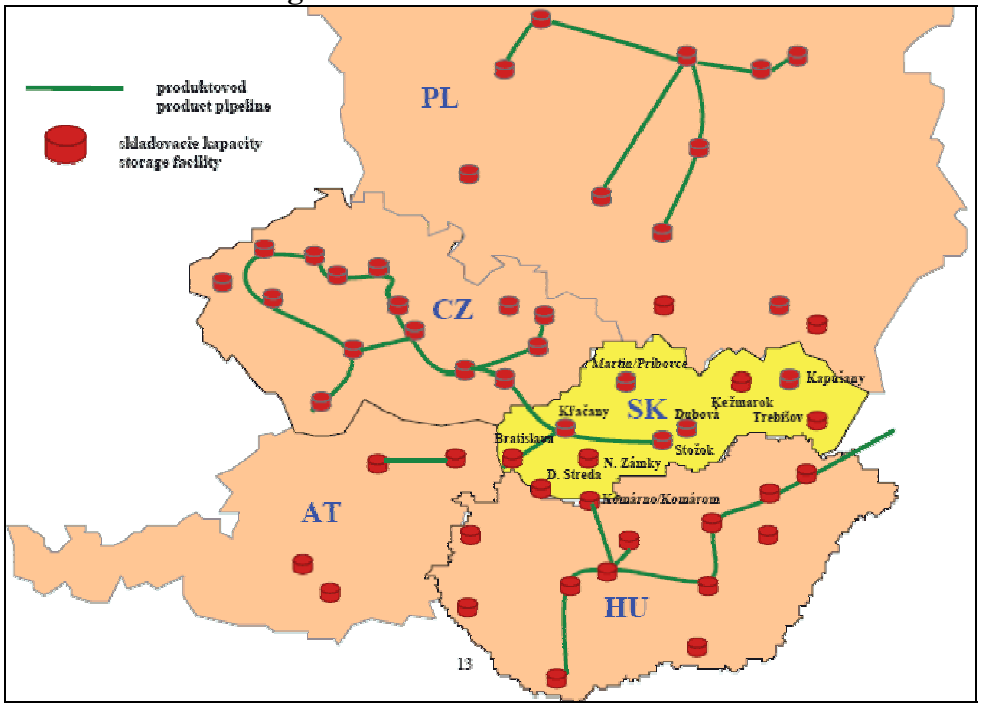
2008 was the second year that both the key motor fuels – diesel and petrol – were sold in Slovakia with bio-additives. So, the Slovak Republic met the set goal in the area of bio-additive share in fossil motor fuels. The summary energy volume of biological components of ETBE (ethylterc butylether) and MERO (methyl ester of colza) came to, approximately 2.5% in the energy volume of the motor fuels; that is, by 0.5% more than the goal set by the Slovak Government (SAPPO 2010).

Compared to 2007, market placement of Bratislava refinery products did not change in 2008. About 70% of motor fuel, and over 80% of polymers, were exported abroad, particularly to Austria, Czech Republic, Poland, Germany, Italy, and France (SAPPO 2010).

On the other hand, Slovak membership in the European Union's liberal market, as well as the presence of strong international oil market players, resulted in the continued saturation of a part of the domestic consumption by imported products, dominated by imports of motor diesel and petrol, which covered about one-third of the Slovak customer demand for the motor fuels.

The domestic market was, therefore, covered by domestic and foreign sources, which was caused by; besides other factors; the geographical position and small territory of the SR. There is a lot of storage and logistic capacity in its close neighbourhood, which can easily supply the Slovak market. The high fluctuation of oil prices and exchange rates in 2008 forced the oil companies to optimise their stock levels, as well as the entire supplier-customer chain. The purpose of the measures was to harmonise oil companies' possibilities with customer needs, so that they were fully satisfied at all times of the year.

Figure 3: Key storage capacities and product pipelines in Slovakia and surrounding countries



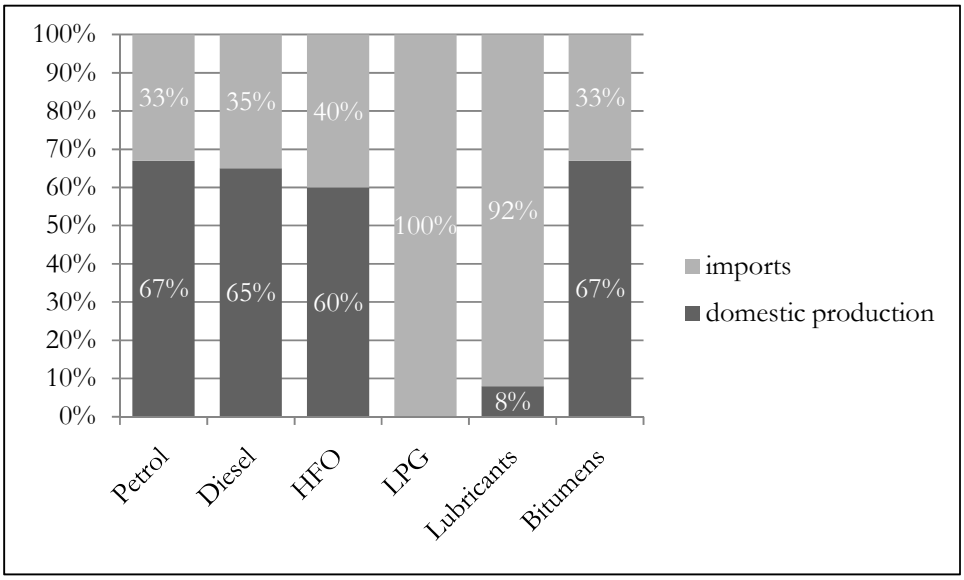
Source: Annual report of Slovak Association of Petroleum Industry and Trade SAPPO (2008).

The basic long-term direction of the oil industry, from the point of view of Slovak customers' interests, had not changed, and the demand focused particularly on motor diesel and petrol. The LPG market, despite the reduction of excise tax on the fuel, remained a peripheral one. Total diesel consumption increased, year-on-year, by about 3.2%, and petrol consumption by about 1.7% (SAPPO 2010). Diesel consumption growth was lower than in 2007, which however resulted from the fact that Slovak plants, in relation to the deepening global crisis, were affected by lower demand for their products on the export market in the second half of the year. The drop in demand for diesel similarly came from the building industry and freight transportation.

Petrol demand was a bit more dynamic than assumed, because motorists started to note the price divergence between diesel and petrol. In principle, petrol had been a significantly cheaper fuel than diesel for a few quarters, which however reflected global circumstances. Fuel consumption responded to continued increased household income and the subsequent increase in the number of newly registered cars, particularly passenger cars, on the Slovak market, which was the most dynamic within the entire EU in the past year.

The overall amount of diesel and petrol consumption in the Slovak Republic remained at the level of about 2:1 in 2008; similar to what it was in previous years, or, conversely, as it is in the whole Central Europe region.

Figure 4: Saturation of domestic demand from domestic production and imports (year 2008)



Source: Annual report of the Slovak Association of the Petroleum Industry and Trade SAPPO (2008).

Table 2: Total domestic consumption of selected refinery products (state petroleum reserves excluded) in the years 2000–2008 (in thousands of tonnes)

Products	2000	2001	2002	2003	2004	2005	2006	2007	2008	08/07%
Motor petrol	602	638	666	677	643	656	666	673	684	1,7
Motor diesel	731	783	932	909	1003	1124	1263	1360	1403	3,2
Heating oils	83	57	65	105	75	61	62	45	58	29,5
LPG	n.a.	n.a.	n.a.	50	52	54	56	51	52	2,0
Lubricants	36	40	38	40	44	45	45	45	45	0,0
Bitumens	84	79	106	102	91	139	175	130	139	6,5

Source: Annual report of the Slovak Association of the Petroleum Industry and Trade SAPPO (2008).

The evolution of motor fuel prices in Slovakia in 2008 sensitively copied the volatile development on the global oil and financial markets. Motorists, within one year, could experience a dramatic rise of prices, as well as their subsequent sharp fall. The average price of motor diesel in 2008 was, year-on-year higher by about 11%; in the case of petrol, the average price increased by less than 3% (SAPPO 2010). On the other hand, the prices dropped, at the end of the year, to a level which last seen in the Slovak Republic more than 5 years ago, while the global economic crisis established the potential to maintain prices at a relatively low level in 2009, too.

The pricing policies of oil companies doing business in the SR did not deviate from common practice of thoroughly copying the price development of oil products traded on international commodity markets. Regular statistical surveys of the Directorate for energy and transport of the European Commission confirmed the conformance of the retail prices of diesel and petrol in the Slovak internal market with prices in neighbouring countries as well, as with the average applied price within the entire European Union.

Conclusion

In the paper I have analyzed the pace of the motor fuel market globally, and in the Slovak Republic. I highlighted the key factors that influenced the world, and Slovak, production and sale of motor fuels in 2008 and 2009, as well as their mutual yearly comparison. These two years were significant concerning the changes, which affected the world events as a cause of the global economy crises, which I outlined in the third part of this paper. Currently, we can assume that 2020 will determine how the petroleum industry and trade will develop further. There will be also known the procedures that the motor fuel vendor will have to follow as a reflection of the global economic crises. It is assumed, that the motor fuel market should be stabilized and the position of the participants on the Slovak market should be clearer.

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