



The Refining Industry in the UK

- **UK refining operates in a global and highly competitive market.**
- **The oil refining sector both in the UK and across the EU, continues to face difficult conditions through a combination of factors, including poor refining margins, weak demand, the legislative climate in the EU and the UK, and competition from non-EU refineries.**
- **Refinery ownership in the UK has changed over the last five years, partly in response to these challenges.**
- **Recently Coryton refinery in Essex has been put into economic shutdown by the Joint Administrators of Petroplus Refining & Marketing.**
- **UK oil refining is a valuable asset making a significant contribution to the UK's economy with a long record as a reliable source of energy as well as feedstocks to other industrial sectors, creating wealth, and supporting employment and skills.**
- **The right policy environment can help UK refining continue to play a pivotal role as an energy source in the future.**

Background

The oil refining sector both in the UK and across the EU, continues to face difficult conditions through a combination of factors, including: poor refining margins, weak demand, an imbalance between refinery product output and consumer demand, the legislative climate in the EU and the UK, and competition from non-EU refineries that do not face these same legislative requirements.

Refinery ownership in the UK has changed over the last five years, partly in response to these challenges. Sadly, it has recently been announced that Coryton refinery in Essex has been put into economic shutdown by the Joint Administrators of Petroplus Refining & Marketing.

UK oil refining is a valuable asset making a significant contribution to the UK's economy with

a long record as a reliable source of energy and feedstocks to other industrial sectors, creating wealth, and supporting employment and skills. Whilst the specific conditions leading to the insolvency of Petroplus and the decisions of the Joint Administrators are known only to the parties concerned, the right policy environment can help UK refining continue to play a pivotal role as an energy source in the future.

Policy and market background

UK refining operates in a global and highly competitive market. The balance between indigenously manufactured and imported refined product has always been set by the market and investors. For many years there has been trade in refined products between the UK and other countries and our own refineries benefit from this export trade in the same way that do non-UK refiners exporting their products to the UK.

Notwithstanding the above, ultimately each refinery and the many companies importing into and selling product on the UK market, are all competitors. Different facilities in the UK have their own markets (domestic or foreign), their own competitors and their own levels of throughput/refinery run rates.

Overcapacity in European refining (overall capacity as opposed to output of some specific products where imbalances persist) is leading to re-structuring by owners in different ways – closure, sale, reduced throughput. Since 2009, eight European refineries have ceased operations, accounting for ~6% of total EU refining capacity (Source: European Commission-Directorate General for Energy, May 2012), of which two have been in the UK.

- quantifying the benefits of retaining an indigenous refining base from the perspective of security of supply/resilience and other benefits to the economy
- showing how the different patterns of evolution for this refining base may help/hinder security of supply in the medium term and how the current/evolving policy framework helps or hinders these different patterns of evolution
- identifying those areas of policy that can help create a level playing field in comparison with overseas competitors, avoiding disincentives to investment.



Location map of UK refineries June 2012

The closure of these plants will make the UK more import dependent for diesel supplies in the future. (See UKPIA publication 'Statistical Review 2012' for background data on supply/demand)

UKPIA would like to see a healthy refining sector maintained in the UK with the associated benefits this brings both to energy security of supply and to the economy nationally and locally. UKPIA does not seek measures to protect UK refining from competition but a level playing field with competitors within the EU and elsewhere.

In this context, UKPIA welcomes and supports the analysis being undertaken by DECC to examine the influences upon the competitiveness of UK refining. We expect this analysis to help inform a future policy framework by:

Conclusions

The changes in the refining market present the Government with an opportunity to consider the policy framework impacting the industry. We hope that the DECC analysis, combined with the EU level dialogue opened up with the Director General Energy via the EU Refining Roundtable, will lead to positive actions to address policy issues identified.

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