



POTEN & PARTNERS

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## POTEN TANKER OPINION



### Refining Continues Moving East

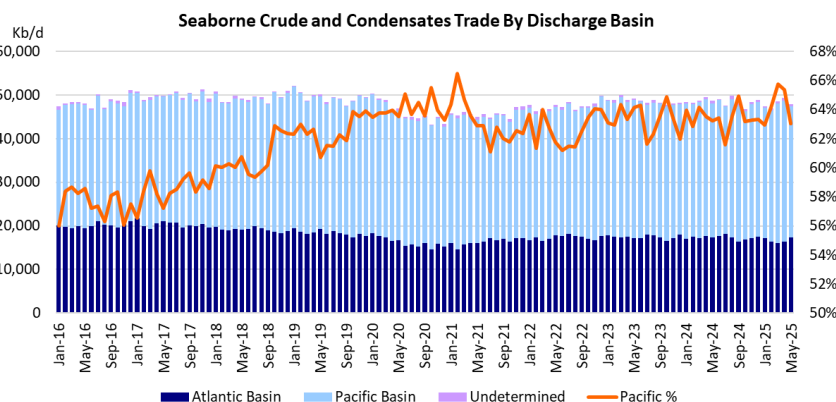
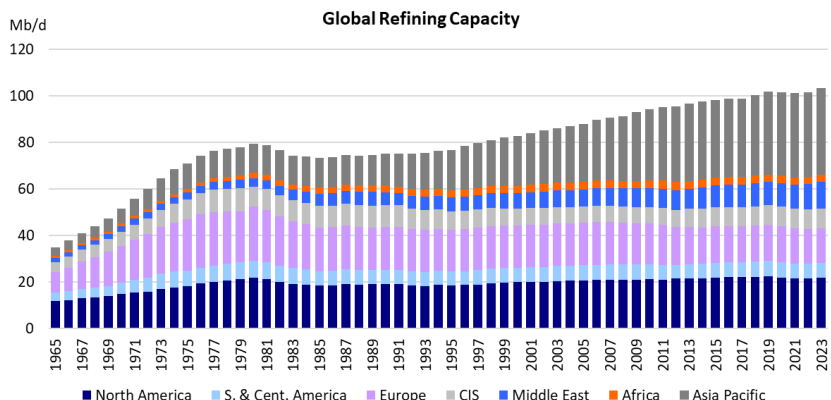
#### The impact of a shifting refinery landscape

Last week, we focused on the increasingly challenging refining situation on the U.S. West Coast and the implications for product flows. The problems facing refineries in California are not unique. As a matter of fact, all over the world, refineries are facing higher operating costs and increasing regulatory burdens. In March 2025, consultancy Wood Mackenzie (WoodMac) published a report about the global refining market over the next 10 years with a focus on the ones that are most at risk of closure. For the tanker market, these are key factors driving potential changes in trade flows, both for crude oil and refined products. Even in a market scenario where global oil demand growth is slowing down due to the increasing penetration of renewable energy, the changes in trade flows are important factors to consider for shipowners.

The WoodMac report identifies a few important global trends that are driving changes in the refining landscape. High operating expenses and increasing environmental compliance costs are challenging refiners in the UK, the EU, California and Canada. This year, about 1 Million barrels per day (Mb/d) of refining capacity is expected to close in these regions. At the same time about 800,000 b/d of refining capacity will start up in Asia. In their report, WoodMac forecasts that 101 out of the 420 global refineries that they analyzed are at risk of closure, representing 18.4 Mb/d or 21% of current global capacity.

The contrasting fortunes of North America and Europe versus Asia are due to a combination of factors. First, and foremost, oil demand is still growing in the Pacific region, while it has been declining in Europe and remains fairly stagnant in North America. Secondly, refineries in the Pacific Basin, in particular those in the Middle East and China are more modern with lower operating costs and higher margins. The new refineries in the Pacific also tend to be bigger, which further increases their competitive advantage. Another factor is the cost of compliance with tightening climate policies, with the refining sector facing significant pressure to reduce carbon emissions over the next 10 years. Refineries without committed investments in low-carbon technologies, such as carbon capture, energy efficiency upgrades, or alternative fuels, are especially exposed. Those located in regions with established or escalating carbon pricing costs, including the EU, UK, and Canada, are under the greatest pressure, according to WoodMac. By 2035, carbon prices in these regions are projected to reach levels up to three times higher than the global average, impacting margins and increasing the need for strategic decarbonization investments.

In summary, refining capacity is expected to decline in Europe and part of North America as refining margins no longer support



Sources: Energy Institute; Vortexa

continued operations and the investments needed to comply with tightening environmental regulations. Most of these refineries are owned by international oil companies, which are more likely to close or sell underperforming refineries. National oil companies, operating in Asia, the Middle East, Africa and Latin America often have government backing and are less likely to shut operations, even if margins are poor. The situation in China is mixed. The large, state-owned refineries fall in the latter category, but China also has a large contingent of smaller independent “teapot” refineries, which tend to be less sophisticated and could be at risk if demand falters and margins turn negative. Some of the Chinese teapot refiners rely on discounted crude from Iran, Venezuela and Russia to remain profitable. Any future sanctions relief would threaten these discounts and cut their margins.

The main purpose of crude oil tankers is to supply these refineries with their feedstock and changes in the refining landscape will impact the tanker market. Rapid oil demand growth in Asia has pushed the focus of tanker employment from the Atlantic to the Pacific and this trend is expected to continue, supporting growth in long-haul tanker trades, especially since non-OPEC crude supply from the Atlantic Basin is growing much faster than demand. Growth in longer-haul tanker demand and the trends toward larger refineries with integrated petrochemical units seems to support larger vessels such as VLCCs and Suezmaxes over Aframax which tend to focus more on regional trades.