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Rising to the challenge of runaway distillate demand

The Oil Story: Europe's Other Achilles Heel

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Global Oil Downstream

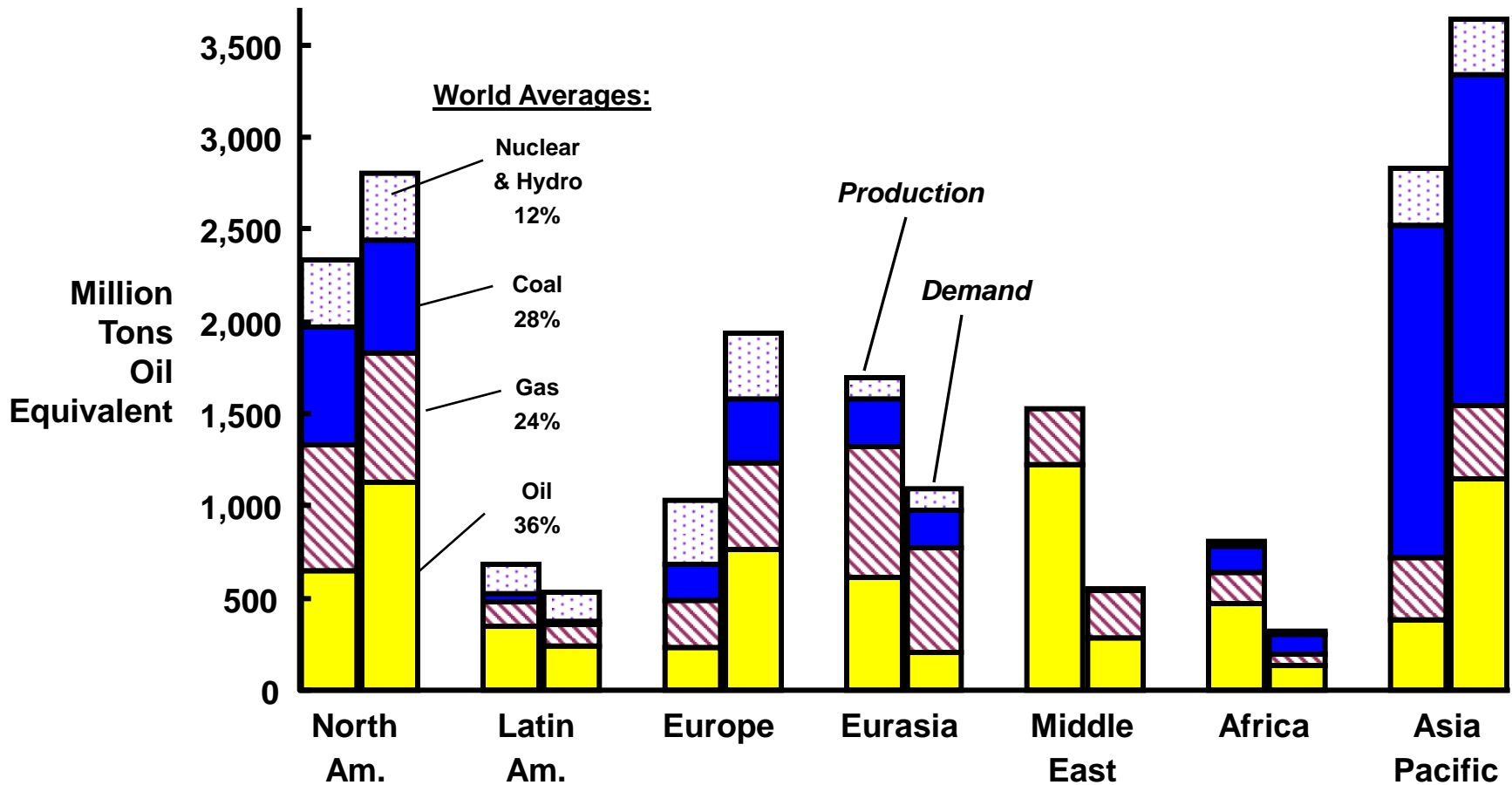
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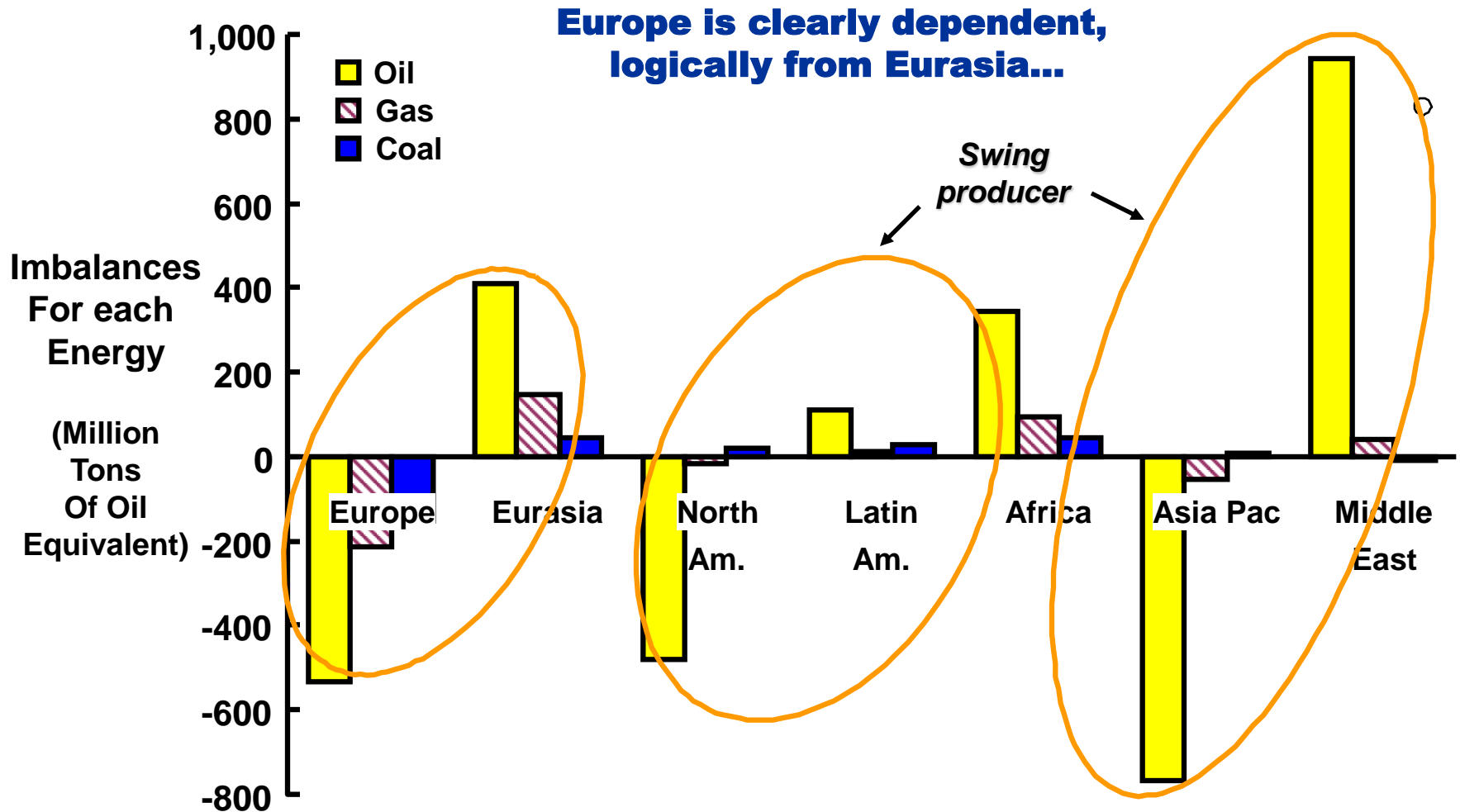




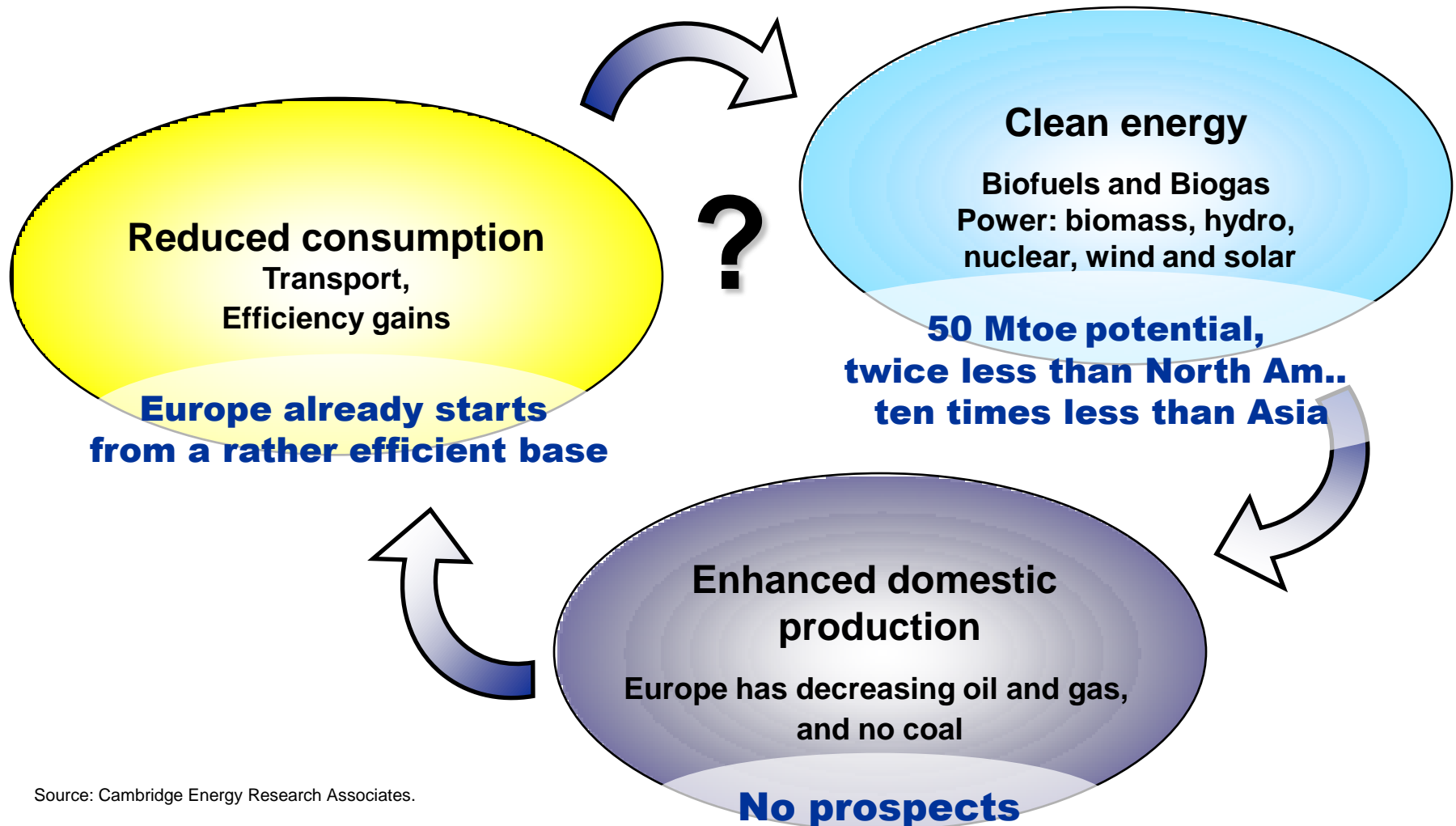
Oil: not much bigger than gas or coal



But less fairly spread, hence large imbalances



Reducing dependence? Difficult for Europe



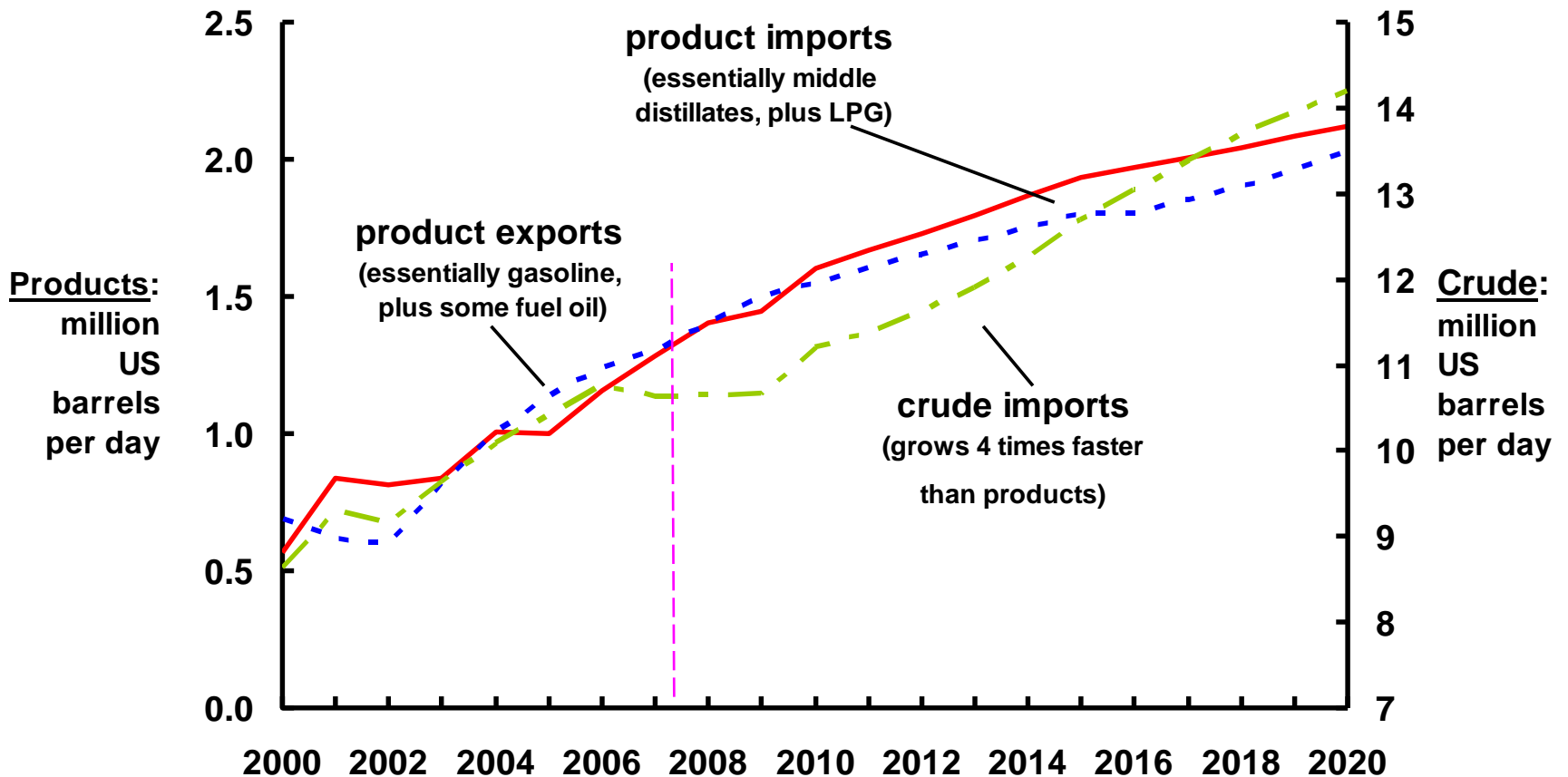
Source: Cambridge Energy Research Associates.

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Crude and product imports keep growing, product exports too



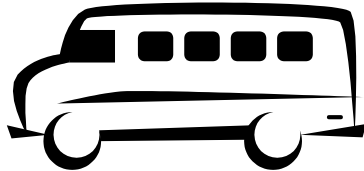
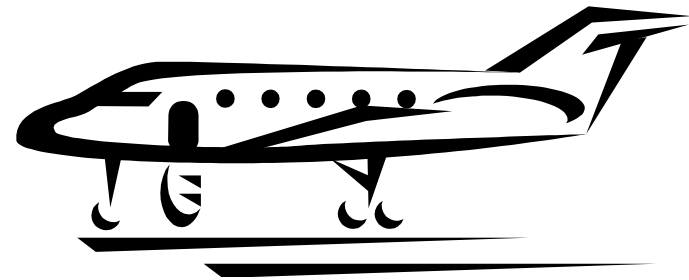
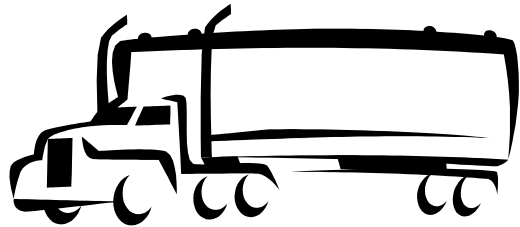
In a world short gasoil and long gasoline, where will European jet/diesel come from, and gasoline go to?



Middle distillates are vital to the economy

55% of the extra oil demand in the next two decades are distillates

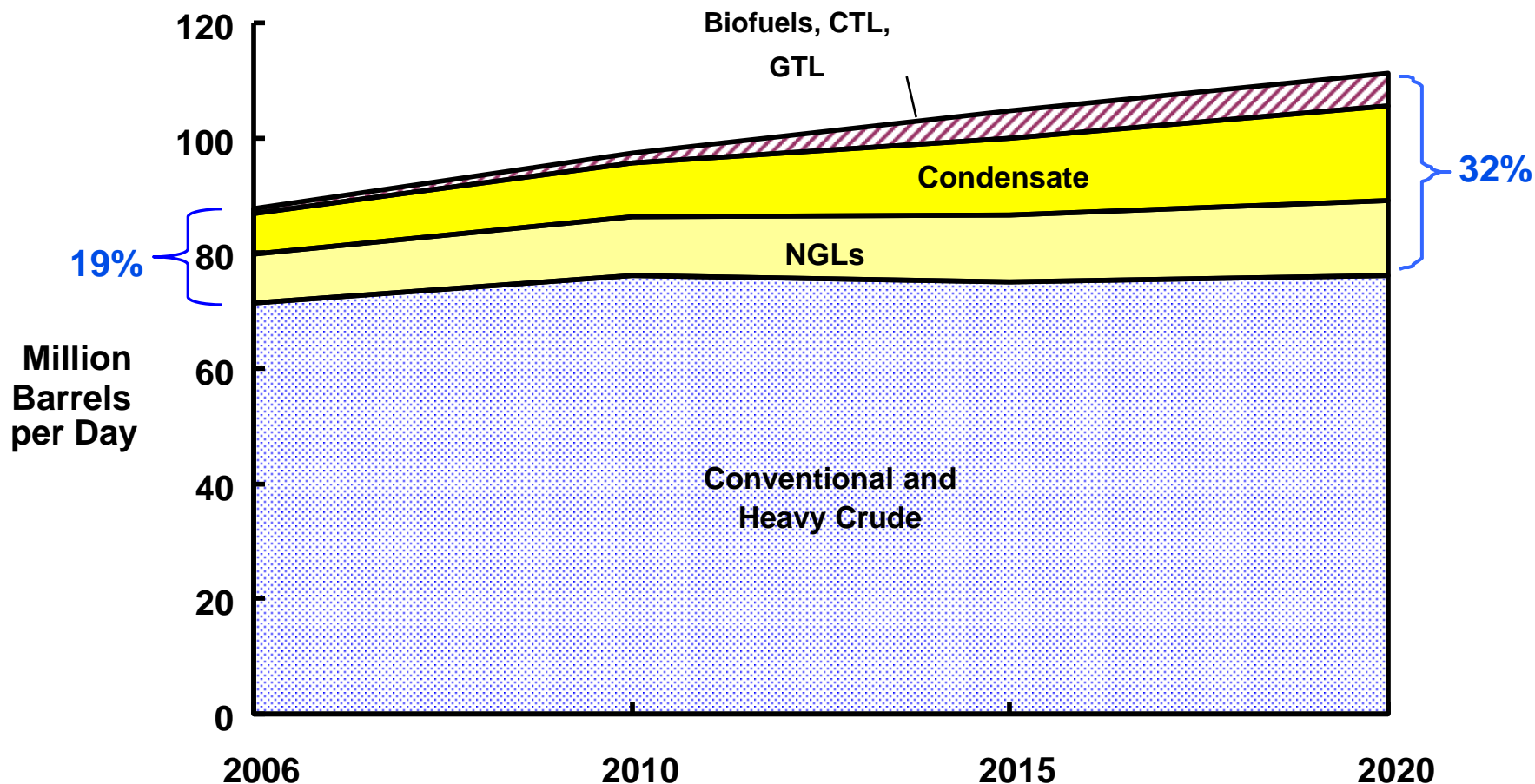
Diesel and **Jet Fuel**



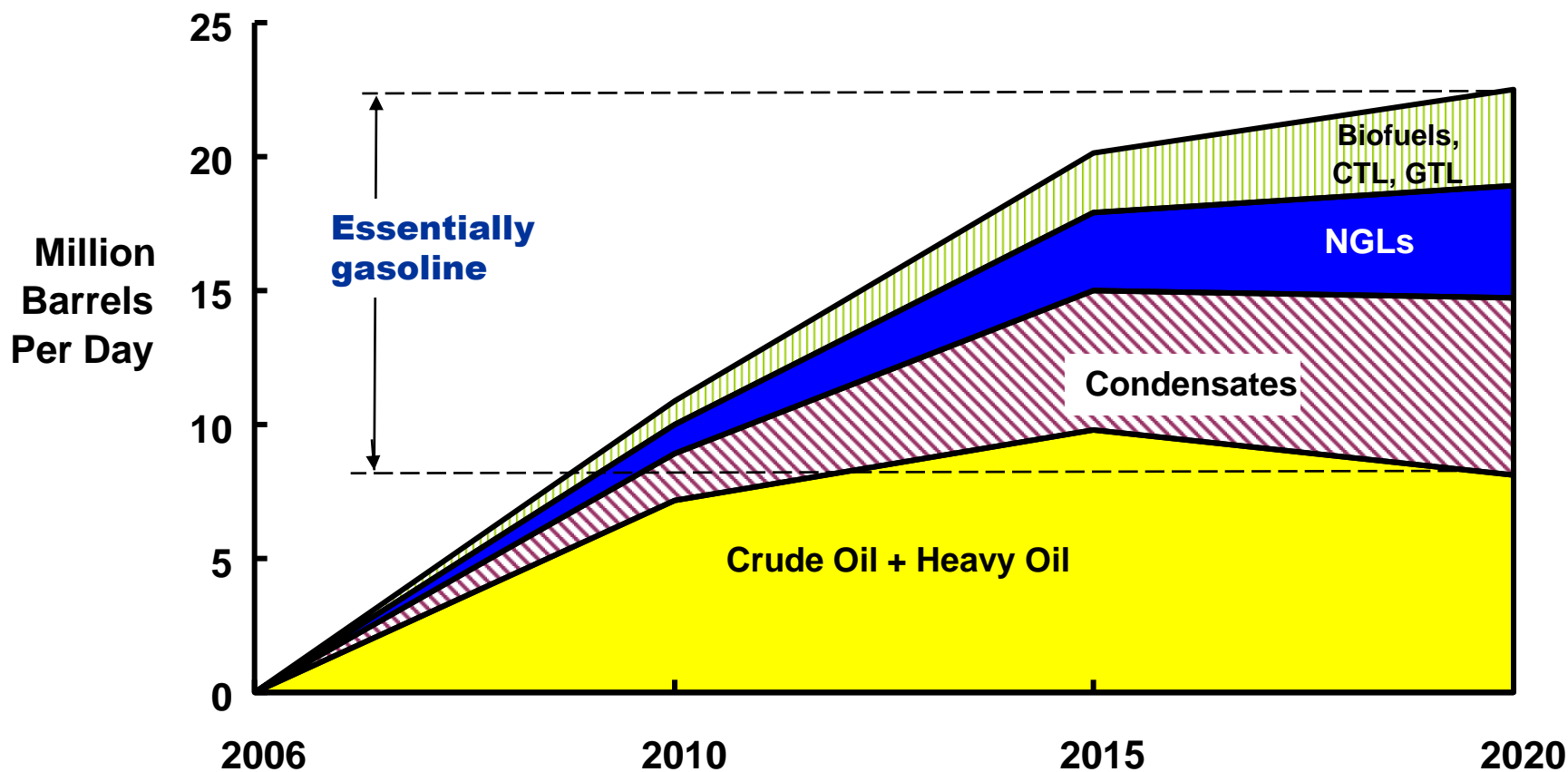
Distillates yield decreases as crude share decreases in total supply



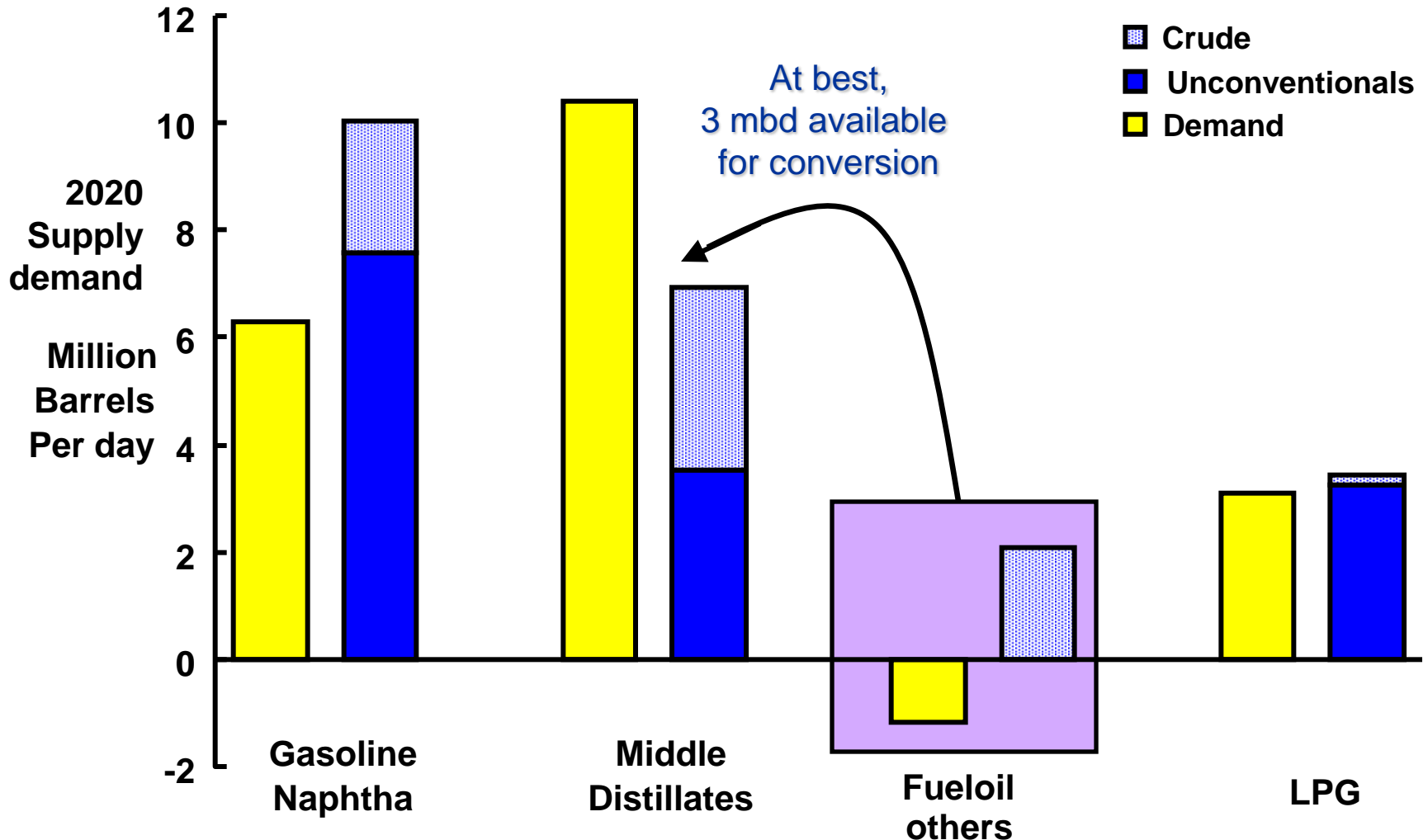
Share of biofuels and gas-related liquids in supply increase by 68%



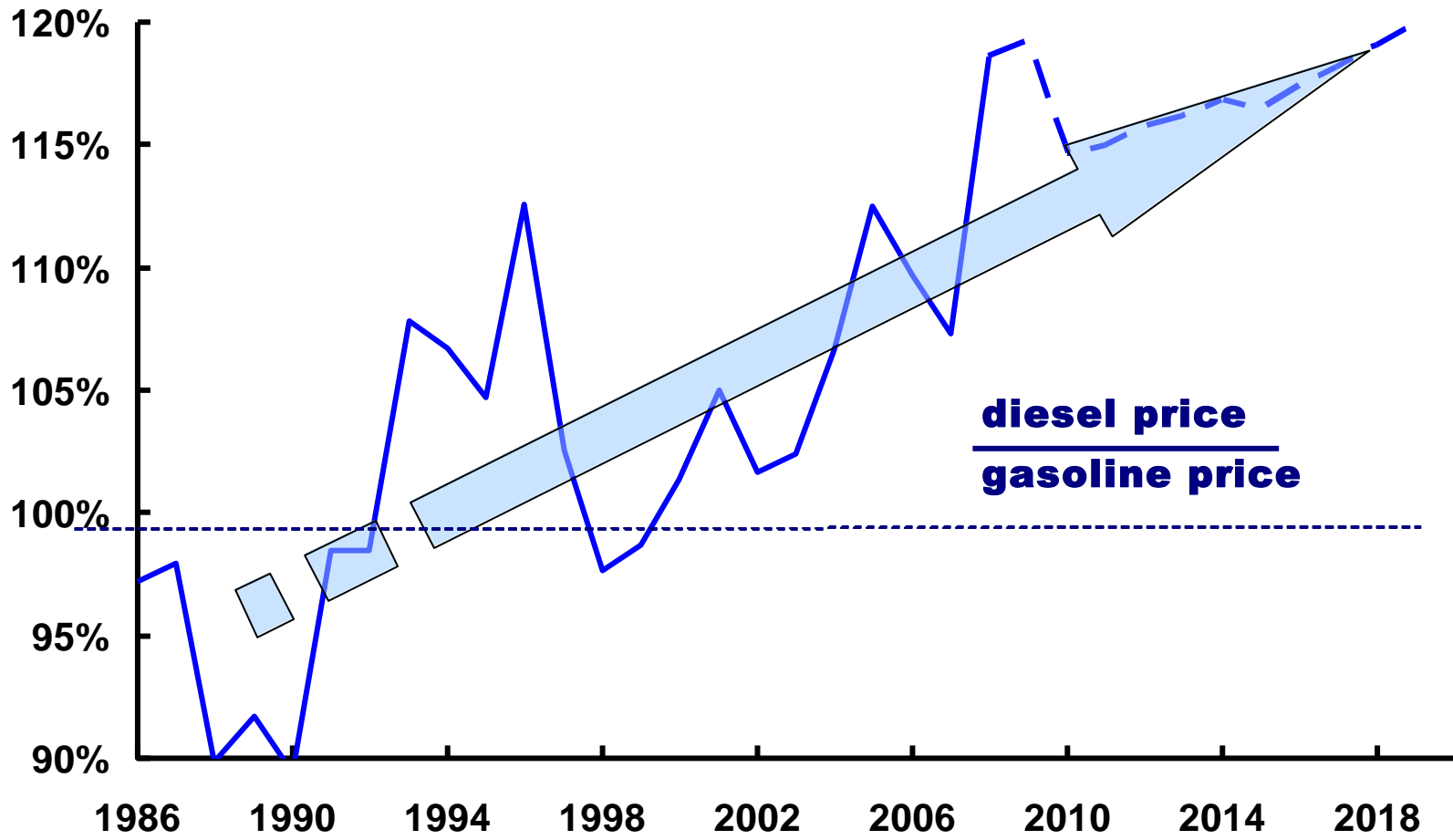
Two-thirds of incremental liquid supply yield mainly gasoline



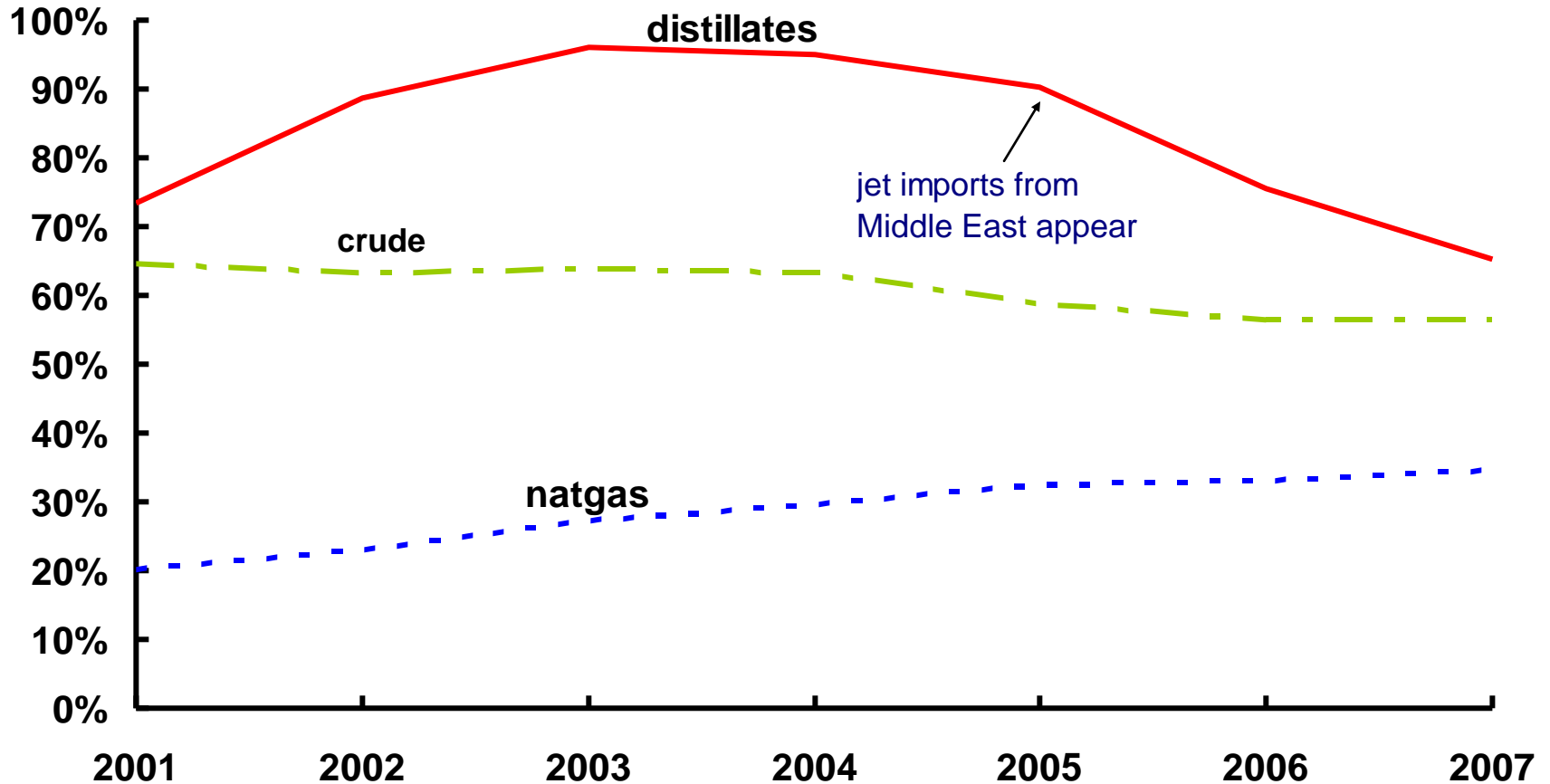
Gasoline oversupply and diesel shortage: refiners' challenge



In the 21st century, diesel is more expensive than gasoline



Dependence on Russia is greater for crude or distillates than natural gas

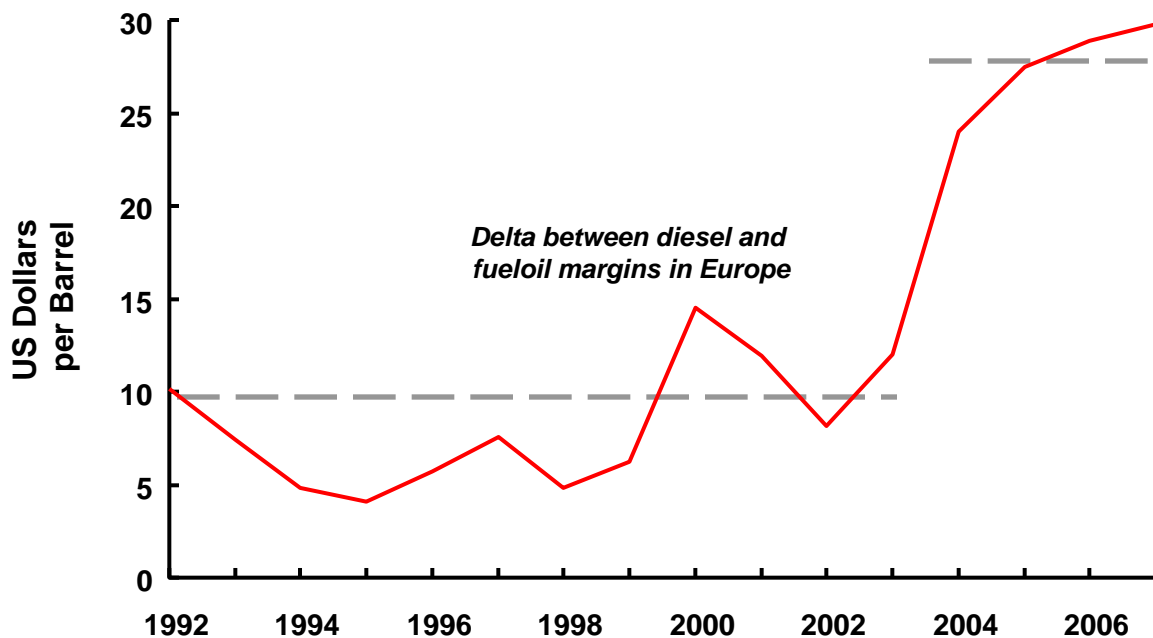




Middle distillates supply is at risk

- Russia supplies two third of distillates imports, thanks to high oil products export subsidies; the last third comes from Middle East, for which Asia competes
- Europe diesel production depends of the possibility to export gasoline
- Diesel shortage worldwide will cause diesel prices to continue outpacing gasoline ones
- In such case, European refineries margins, with the highest middle distillates yield worldwide, would be boosted.

Hydrocrackers: a solution for diesel, but a risky investment...



- Building costs have soared to around \$1 billion
- Margins today justify construction...provided you are convinced this will last long enough to study, build, and operate!
- Meanwhile existing complex refineries sell for less...
- Europe cracker capacity to distillation capacity ratio remains below 25%; it is above 40% in the U.S.