Allaying the Nervousness in the Dutch Oil Market

KINGSTON, JAMAICA, October 6, 2022 /EINPresswire.com/ -- Amid the ongoing war in Ukraine and the economic sanctions it engendered, uncertainty continued to plague the global energy market toward the end of September. Against this backdrop, the price of a barrel of Brent and West Texas Intermediate hovered around US$86 and US$79, respectively. More specifically, data from Eurostat's Weekly Oil Bulletin show that in the Netherlands a litre of Euro-super 95 (with taxes and duties) was costing 1.93 euros on 26 September (Figure 1). This has been fuelling sentiment that the Dutch government might need to provide additional relief to the motoring public notwithstanding the reduction in the excise duty on a litre of petrol by 17.3 cents as of 1 April (causing the Euro-super 95 to dip to 2.11 euros on 4 April). Nervousness is in part being stoked by the recollection that it was not so long ago (13 June) that Dutch motorists were paying 2.37 euros per litre at the pump, coming on the heels of the EU's 30 May decision to impose a ban on 90 per cent of imports of Russian sea-borne crude to take effect on 5 December. Then there was the 6 June report in the Oil & Gas Journal indicating that Saudi Arabia had signalled its intention to increase the July official selling price (OSP) of its Arabian Light crude supplied to Europe by 2.07 euros per barrel (i.e., by roughly 1.29 cents per litre).

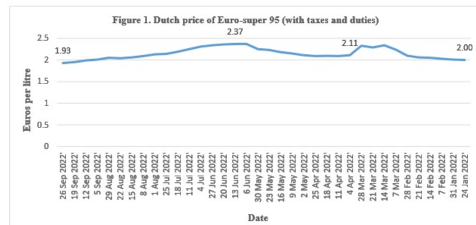

Figure 1. Dutch price of Euro-super 95 (with taxes and duties)

However, it is worth considering a few developments that could help to calm the current nervousness. First, drawing on consolidated data on sea-borne crude oil movements and other market intelligence, Refinitiv Eikon (a financial markets data provider within the London Stock Exchange Group) reported that significant tonnages of non-Russian crude were beginning to flow into European refineries. In particular, the vast bulk of the production from Norway's John Sverdrup oil field was being redirected to Europe from customers in Asia.

Second, more sea-borne crude oil cargoes from the US, West Africa, Egypt, Norway and Britain's North Sea were being consigned to refineries in Poland, notably Gdansk which has a capacity of 210,000 barrels per day (b/d) and Plock (270,000 b/d).

Third, Saudi Aramco plans to leverage an MOU with Poland's PKN Orlen to deliver up to 400,000 b/d of Arabian crude into Orlen's petrochemical network. This is made possible by Saudi Aramco's acquisition of a 30 per cent equity stake in the Gdansk refinery.

So, through a combination of excise duty relief, prudent supply chain diversification, conservation and inward investment, creative ways are being explored to mitigate any potential shock to sea-borne oil supplies to Europe, including the Netherlands. On another level, there is growing recognition of the likely commercial benefit of harnessing the interconnectedness of the energy ecosystems of Europe and the Middle East. This is placed into sharp relief by recent projections that about 1 million b/d of new refining capacity is likely to be added in the Middle East between 2022 and 2023. Approximately 70 per cent (or 700,000 b/d) of this is scheduled to come online this year, according to the International Energy Agency.

A word of caution is, however, necessary. There is the lingering risk of disruption to either a portion or all of the roughly 1.5 million b/d of Kazakh crude supplied to the EU via the Caspian Pipeline Consortium (CPC). This crude is produced at the Tengiz oil field in Kazakhstan and then transported through the CPC up to the Black Sea port of Novorossiysk from where it becomes sea-borne crude destined for EU refineries. In this context, the Netherlands and its EU partners would do well to put in place appropriate strategies to mitigate the risk of supply disruption from this source. At the same time, EU refineries will need to work doubly hard to improve operational efficiency and minimise outages.

We end by calling attention to the bigger picture which is to attract greater inward investment into affordable, secure and sustainable energy diversification projects under the RePowerEU plan. For this purpose, the tapestry of business and compliance regulations will have to be reworked. Some clear pointers in this regard are presented in "The Business Ecosystem in the Middle East and Europe.""

Philip Stafford Baker
Philip S. Baker Consulting
+1 876-337-6265
email us here
