

# Market Research Report on Chinese Processed Oil Industry, 2009

<https://marketpublishers.com/r/M6E21312521EN.html>

Date: July 2009

Pages: 60

Price: US\$ 1,692.00 (Single User License)

ID: M6E21312521EN

## Abstracts

In 2008, the processing quantity of Chinese crude oil was 340 million tons. The outputs of Chinese processed oil were 206 million tons and its consumption was 209 million tons.

From 2005 to 2007, the consumption of Chinese processed oil (gasoline, kerosene and diesel oil) basically remained a steady annual growth rate of 6%. From January to August of 2008, the consumption of Chinese crude oil reached 140 million tons, rising by 15.8% over the same period. Particularly, the growth rates of processed oil consumption in June, July and August remained above 18%. After September, the growth rate of Chinese processed oil consumption began to fall down sharply. The growth rates in September and October reduced to 10% and 1.8% separately over the same periods. The growth rates of November and December declined continuously, decreasing by 9.2% and 6.1% separately over the same periods. In 2008, the entire growth rate of Chinese processed oil consumption showed high rises in the first eight months and low rises in the latter months. The consumption of processed oil in the whole year of 2008 was 209 million tons, rising by 10% over the same period. The consumption of gasoline and diesel oil was 196 million tons, rising by 11% over the same period.

By analyzing the changes of the growth rates of Chinese gasoline and diesel oil consumption since August of 2008, the consumption of diesel oil fluctuated greatly and it fell rapidly. The consumption of the diesel oil declined both in November and December, decreasing by 15% and 10% separately over the same period. The consumption of gasoline fluctuated narrowly. The growth rate over the same period decreased from 12% in August to 4% in December.

From 2005 to 2007, the annual growth rates of the processing quantity of Chinese domestic crude oil and the outputs of the processed oil were 6.2% and 6% separately, almost the same with the growth rates of consumption. But there was a tight balance between supply and demand in Chinese domestic processed oil market because China hadn't constructed and operated new and large-scale crude oil processing capacities in recent years. Since August of 2007, the consumption of domestic processing oil grew rapidly and the tight balance in the previous years was broken. Besides, the domestic oil price dropped far away from the international oil price and those local small refining factories had to reduce their production and even stop the production. The supply in the processed oil market couldn't meet the demand. From January to August in 2008, the outputs of Chinese processed oil were 138 million tons, rising by 6.7% over the same period. This was much lower than 15.8% of the consumption growth rate over the same period.

After the oil refining capacity of 10 million tons/year in Sinopec Qingdao Refining and Chemical Co., Ltd was constructed and put into operation in June of 2008 and the added complete and comprehensive capacity of oil refining with 10 million tons/ year in Dalian Petrochemical Cooperation was also constructed and put into operation in August of 2008, Chinese crude oil processing capacity was enhanced significantly. Additionally, the international crude oil price fell down greatly since July of 2008 and the gap between the prices of crude oil in domestic and in the world was narrowed down, the domestic price was even higher than the international price. This greatly stimulated the production enthusiasm of the refining and chemical enterprises. Those local oil refining factories which reduced and stopped production began to increase their outputs. In 2008, the aggregate outputs of Chinese domestic processed oil reached 35.9 million tons, rising by 11.6% over the same period of the last year. This was much higher than 6% of the consumption growth rate over the same period and as a result the market had a large surplus of resources and it had to balance supply and demand by increasing export volumes and decreasing import volumes. Since November, the two petrol groups began to reduce greatly the processing quantity of crude oil and the quantity in November increased only by 4.4% over the same period. The outputs of the crude oil were decreased by 9% over the same period.

In 2008, the entire growth rate of Chinese processed oil outputs showed high rises in the first eight months and low rises in the latter months. The outputs of processed oil in the whole year of 2008 were 206 million tons, rising by 7% over the same period. The consumption of gasoline and diesel oil was 194 million tons, rising by 7.3% over the same period.

From January to August in 2008, the growth rate of 6.7% in the outputs of Chinese processed oil couldn't match the consumption growth rate of 15.8%. And the import processed oil suffered a great loss, resulting in the short of social processed oil resources. Limited supplies and waiting in gas lines appeared continuously in some local gas stations.

Since August in 2008, the outputs of Chinese domestic processed oil were improved gradually, but the growth rate of consumption was slowed down obviously. Meantime, because the international processed oil price was lower than that in domestic, there was a severe deficit on export, resulting in excess resources in domestic processed oil market. Since October of 2008, the processed oil of the two petrol groups sold poorly and gas stations in some areas as Shandong and Guangdong began to reduce the price to promote the processed oil.

In general, the increasingly prominent contradiction of supply and demand was the main factor affecting the great fluctuation in the processed oil market in 2008. Here, the reasons of market changes can be analyzed from the change of the demand growth of processed oil and the adjustment of domestic processed oil price.

1. The phenomena of the processed oil consumption, which showed high rises in the former period and low rises in the latter period, matched the development of Chinese economy in 2008.

(1) Chinese domestic economy grew rapidly in the first half of 2008, promoting the development of the whole industry, especially increasing the oil consumption for vehicles and agriculture.

In the first half year of 2008, affected by the reconstruction after the earthquake and the effects in the former period of Beijing Olympics, the national economy grew rapidly. In the first half year of 2008, Chinese GDP was increased by 10.4% over the same period, promoting the rapid development of all industries, especially the automobile industry and agriculture.

In the first half year of 2008, Chinese automobiles were sold 5.18 million, rising by 18.8% over the same period. Among them, the sales volumes of gasoline cars were 2.71 million and the possessing capacity was added up to 19.6 million. The petrol consumption of cars reached 12.1 million tons, rising by 22% over the same period and accounting for about 65% of the aggregate consumption increment of gasoline of the first half year. Stimulated by the Implementation Countries' emission standard (Heavy diesel vehicles below Standard would not be sold after July 18th of 2008) and the

after-disaster reconstruction, the sales volumes of heavy diesel vehicles increased by 49.9% over the same period. The possessing capacity reached 5.62 million in the first half year and the oil consumption was 21.32 million tons, rising by 34.4% over the same period and rising by 19.5% over the same period of the last year.

On the other hand, Chinese government increased the investment on the mechanization of agriculture and the financial subsidies on the purchases of agricultural machines were 4 billion RMB, 60% of which was already completed in the first half year. The total power output of agricultural machinery in the country came to 786 million kw, rising by 2.3% over the same period of the end of 2007. The consumption of diesel oil of agricultural machinery came to 13,367 tons, rising by 5% over the same period.

(2) Affected by the depression of the international economy, the growth rate of Chinese domestic economy slowed down and the consumption growth rate of the processed oil in Q4 also began to slow down apparently.

Affected by the global financial crisis, the international economic situation was extremely serious and Chinese economy was also affected. Since Q2 of 2007, the growth rate of Chinese economy began to slow down. And the growth rate of GDP went down each quarter. It went down from 12.7% in Q2 of 2007 to 10.1% in Q2 of 2008, and in Q3 of 2008 it reduced to 9%, and it continued to go down in Q4 with the growth rate of 6.8%.

The global financial crisis forced those export-oriented enterprises on the southeast coast of China which mainly exported products to reduce their production and even stop the production. According to the statistics of foreign trade throughputs of coastal ports above the designated size, in September and October of 2008, the foreign trade throughputs were increased by 7.3% and 6.6% separately over the same periods and decreased by 6.6% and 4.1% separately in link relative ratio. Since November, the foreign trade throughputs went down sharply. In November, the throughputs were decreased by 5.7% over the same period and decreased by 7.7% in link relative ratio. The severe downturn of port throughputs directly resulted in the reduction of the trip rate of large and heavy trucks in coastal areas which mainly transported containers. The consumption of oil for transportation, especially the consumption of diesel oil, went down sharply.

The price adjustment of Chinese domestic processed oil lagged far behind the adjustment of the international oil price. Since 2008, the price of Chinese domestic processed oil dropped far away from the price of the international crude oil, making it

difficult for consumers and investors to understand the price-setting mechanism of Chinese processed oil price. However, with careful analysis, some laws can be found out.

Through this report, readers can acquire the following information:

- The price-setting mechanism of Chinese processed oil
- Main government policies in Chinese processed oil industry
- Tendency of the change of Chinese processed oil price
- Development of Chinese oil refining industry
- The situation of supply and demand of Chinese processed oil
- Existing investment opportunities in Chinese processed oil industry
- Factors affecting the development of Chinese processed oil industry
- Affects of the global financial crisis on Chinese processed oil industry
- Predicts on the development tendency of Chinese processed oil

The author recommends the following persons to buy this report:

- Oil refining enterprises
- Processed oil trading enterprises
- Export and import enterprises on crude oil
- Manufacturers of oil refining equipment
- Enterprises planning to enter Chinese processed oil market
- Investors concerning Chinese processed oil industry
- Research institutions concerning Chinese processed oil industry
- Other persons concerning Chinese processed oil industry

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