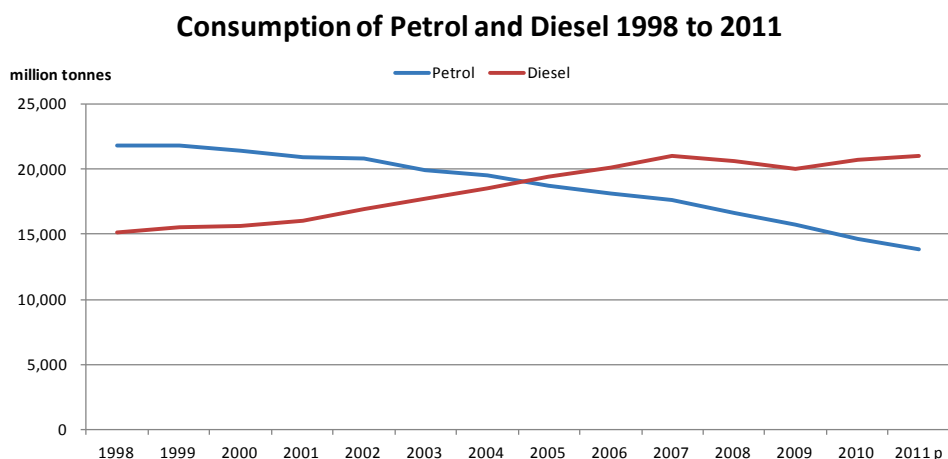


Background Information on UK downstream oil industry

- **Overcapacity:** The UK's refineries face tough competition from other refineries in Europe and increasingly in Asia, which means that profit margins are low. It is well known that there is overcapacity in the refinery sector in the UK and Europe. Eight European refineries have closed operations since 2009, and more closures are likely to happen in future.
- **Type of product:** Since 2000, the European refining industry has become increasingly out of balance with changing domestic demand trends, making the region ever more reliant on trade to balance demand with supply. There is a notable and growing surplus of Petrol and increasing shortfall of diesel.
- **Imports and exports:** In 2010 the UK's refineries produced broadly the right amount of fuel to meet demand in the UK. However imports and exports are needed to obtain the correct mix of petrol and diesel: put simply we export more petrol than we consume and import for diesel than we produce.
- The UK exports around 40 per cent of the petrol it produces, while imports about half of the diesel it produces..
- **Demand for fuel:** Petrol consumption in the UK has declined by 35 per cent over the past decade, however demand for diesel has increased by 34 per cent, which means overall demand for road fuel is stable.
- **Security of supplies:** No disruption of fuel supplies to the South East are expected as a result of the Coryton closure. Suppliers who use Coryton are making alternative arrangements in order to source required supplies.

Consumption of Petrol and Diesel in the UK¹



¹ Source: Table ET3.13

http://www.decc.gov.uk/en/content/cms/statistics/energy_stats/source/oil/oil.aspx

Petrol consumption has declined by 35 per cent over the past decade, however demand for diesel has increased by around 34 per cent. Demand for petrol is now at 14 million tonnes and demand for diesel is 21 million tonnes. The demand for petrol has similarly declined in Europe, although the demand for petrol in the USA has been broadly stable over the same period².

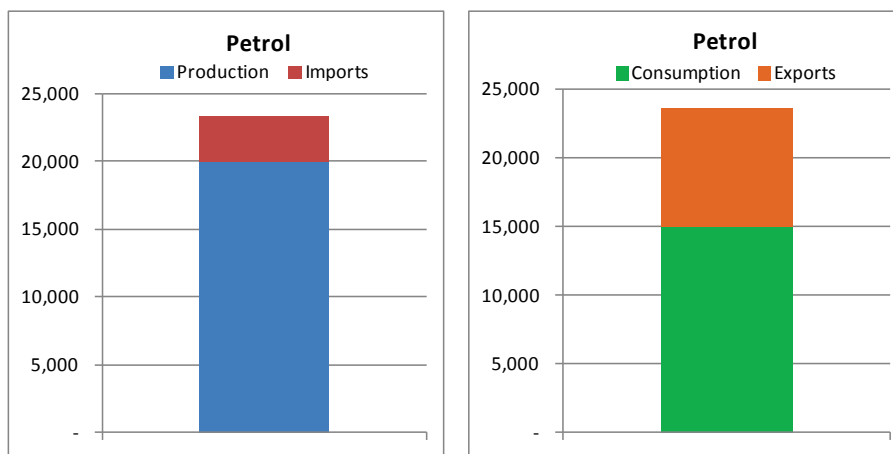
| %age change ³ | Petrol | Diesel | Both Fuels |
|--------------------------|--------|--------|------------|
| since 2000 | -35% | 34% | -6% |
| since 2005 | -26% | 8% | -9% |

Overall there has been a decrease in the demand for fuel, most likely due to economic conditions and better fuel economy from newer cars.

Production, Imports, Exports and Consumption of Petrol and Diesel in the UK⁴

In 2010 the UK's refineries produced broadly the right amount of fuel to meet demand in the UK. However imports and exports are needed to obtain the correct mix of these fuels (put simply we export more petrol than we consume and import for diesel than we produce). 2010 is indicative of the past four years.

A simplified explanation of the market for petrol is illustrated below and shows how the UK is a net exporter of petrol. The UK consumed around 12 million tonnes of domestically produced petrol, imported 3 million tonnes and exported around 9 million tonnes. The UK exports around 40% of the petrol it produces.



A simplified explanation of the market for diesel is illustrated below and shows how the UK is a net importer of diesel. The UK consumed around 13 million tonnes of domestically produced diesel and imported around 8 million tonnes while exporting around 2 million tonnes. The UK imports around 37% of the diesel it uses.

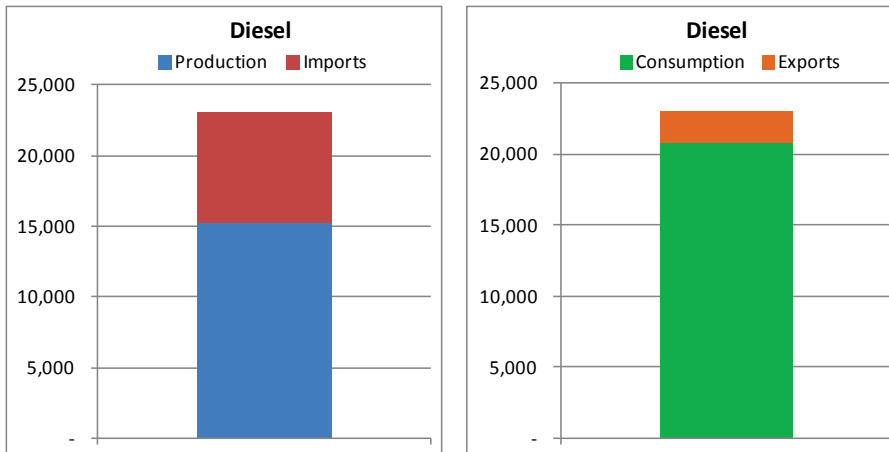
² <http://www.oecd-ilibrary.org/>

³ Source: Table ET3.13

http://www.decc.gov.uk/en/content/cms/statistics/energy_stats/source/oil/oil.aspx

⁴ Source: DUKES 3.2 - 3.4

http://www.decc.gov.uk/en/content/cms/statistics/energy_stats/source/oil/oil.aspx



The UK imports and exports both petrol and diesel as companies adapt to commercial drivers in the market.

Refinery Capacity in the UK

In 2010 the UK refined over 70 million tonnes of petroleum products. Refinery capacity has been broadly constant over the previous ten years with the one closure offset by small increases in other refineries.⁵

Refinery Capacity in Europe

The International Energy Agency (IEA) has reported that since the economic recession of 2008/09, more than 3.0 million barrels of oil per day (mb/d) of crude distillation capacity has closed or is scheduled to close in the Organisation for Economic Co-operation and Development (OECD), with more at risk. At the same time significant refinery expansions are taking place in the non-OECD, particularly Asia, outpacing expected demand growth. The IEA reports that global refinery overcapacity persists, as refinery shutdowns are insufficient to offset new-built capacity and weak demand.⁶

The following refineries have been shut down in Europe since 2009⁷:

France

- Total Dunkirk
- Petroplus Reichstett

Germany

- Shell Harburg
- ConocoPhillips Wilhelmshaven
- Petroplus Ingolstadt⁸

Italy

- Tamoil Cremona

⁵ Source: DUKES Chapter 3

http://www.decc.gov.uk/en/content/cms/statistics/energy_stats/source/oil/oil.aspx

⁶ http://www.clingendael.nl/events/20120404/ciep_seminar_european_refining_iea_bosoni.pdf

⁷ As set out at the EU Refining Roundtable on 15 May 2012

⁸ Although operations at Ingolstadt are likely to restart following its sale in May 2012

Romania

- Petrom Arpechim

UK

- Petroplus Teesside