

Oil Market Report – September 2010

Another month and another sale. This time, the French oil giant Total announced that not just their Immingham refinery would be sold, but that they would also throw in their fuel depot network, their 800 Petrol Forecourts (Au Revoir to “Bonjour”™) and their Customer Distributor network (Total Butler).

For end-users of commercial fuel (local authorities, construction, manufacturing etc), the sale of Total Butler represents a very significant milestone, as it marks the end of major oil company involvement in supplying fuel to business customers in the UK. Of course, such activity has long been unfashionable in the Board Rooms of the major oil companies. But nonetheless, the departure of Total from direct operations, completes a remarkable process that started back in 2000, when BP sold-off its Commercial Fuels Business. Back in the day when Portland was a junior oil company analyst, Direct Fuel Operations had marketing divisions, graduate recruitment programmes, supply departments, PR spokespersons and HR Directors. In the short 10 year period since 2000, all of that has been picked apart, cast off and thrown by the wayside. The majors did not, could not or did not want to make the returns that they needed in this unfashionable part of the industry. Dealing with customers was too tiresome, managing non-standardised logistics too difficult and besides, getting the oil out of the ground made too much money for anything else to be seen as core.

So the independent operators now inherit the earth. Having a refinery is no longer seen as an advantage and cross subsidised sales, centralised costs and transfer prices will all disappear. In one sense we now have a level playing field, with sellers of commercial fuel having to buy and sell their product as a stand-alone operation without the help of a refinery behind them. However, Portland can't help but feel that now the UK has become an importing and trading free for all, consumers may well look back in a few years, with dewey-eyes and hark back to the good old days, when major oil companies ruled the roost and customers got a fair deal! We will see.

As for the markets, after several months of static and largely downward pressure, there seems to be some upward price momentum. Fears of a double-dip recession continue to plague Europe, but then resurgent growth seems equally likely in the East. The performance of global mineral companies is often a good indicator of overall commodity demand and with the Australian company BHP Billiton recently reporting annual profits of \$9.8bn, there seems to be little sign of recession in that part of the world. More about that subject next month.

