

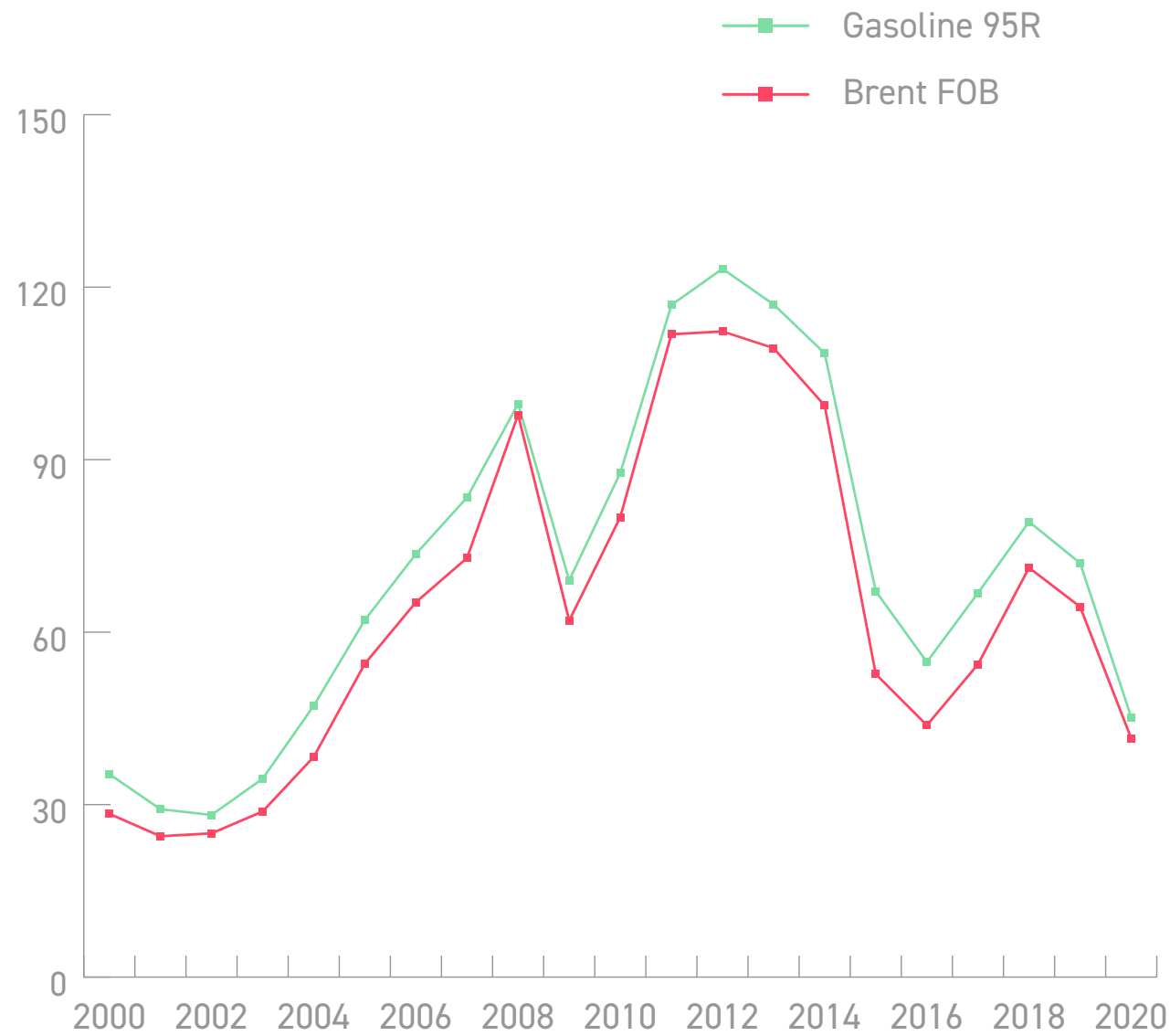
FIG.06

REFINERS OPERATE BETWEEN TWO GLOBAL COMMODITY MARKETS: CRUDE MARKET AND REFINED PRODUCTS MARKET

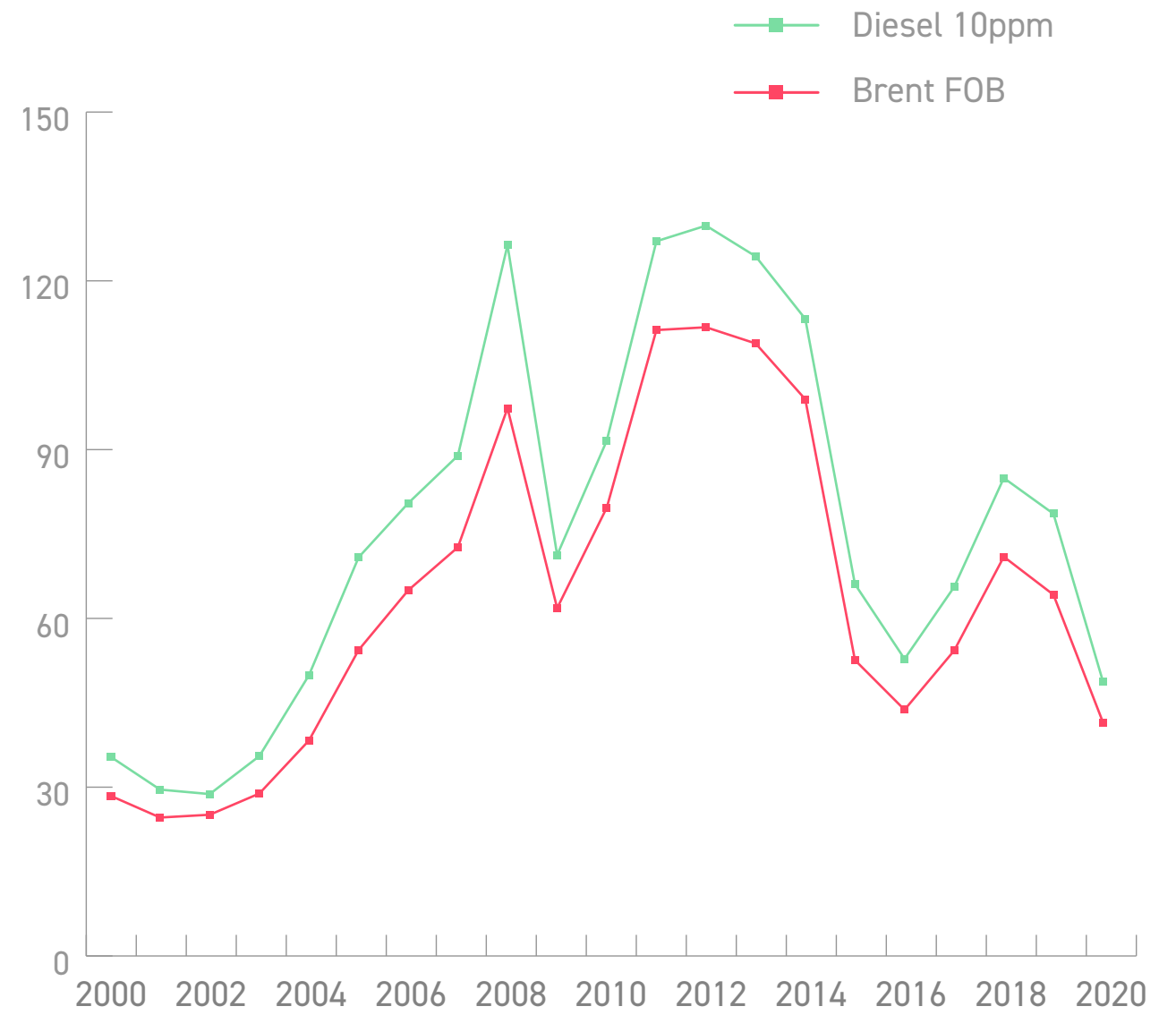
Source: Wood Mackenzie

Unit: Average yearly prices US Dollar per barrel

Gasoline



Diesel



EU refining operates between two global commodity markets, the crude market and the refined products market. The 'crack spread' represents the difference between the cost of crude oil and the market sales price for refined products. Generally, product prices rise with crude prices but the drivers of the difference are many. In historic terms, the profitability has started to decline in a context of falling demand (2008). After a first, yet small, improvement, in 2012-2013 a better period started for refineries in 2015-2018.

Prices started falling again in 2019, with a record low in 2020 due to the Covid-19 pandemic. The spread is generally tight, margins are low and the industry is highly vulnerable to the operating costs that must be deducted from the spread before profitability can be considered.