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Vietnam Pressures Asian Refiners

Buildup of Capacity Could Pinch Exports Of Nation's Crude Oil

By JUN YANG
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SINGAPORE -- A plan by Vietnam to build up its refinery sector is raising concerns among some Asian oil buyers that Vietnamese crude exports will dwindle in coming years, just as global supplies are becoming stretched and competition in the oil-products market is mounting.

Vietnam now relies on imported oil products to meet nearly all of its domestic consumption. Once the nation begins to produce its own oil products using its own crude, Asian refiners will be pressured on two sides by the Vietnamese: by a reduced availability of crude oil and then by the loss of a major outlet for their products.

How fast and by what magnitude this will happen depends on whether the country can develop its downstream sector as quickly as it would like.

Vietnam, which owns the third-largest oil reserves among Association of Southeast Asian Nations members, wants to build three large refineries over the next eight years. Analysts say high costs and a lack of funds may push the plan well beyond the 2015 target.

"The balance (of Vietnam's crude-oil exports) will be tighter in the years to come, but I don't expect the development of refining capacity to keep up with the market," said Steven Knell, an analyst at Global Insight.

The three refineries will have a total capacity of about 430,000 barrels a day if all goes as planned. Meanwhile, Vietnam's crude-oil output could grow to about 500,000 barrels a day by 2015, according to Michael Smith, chief executive of U.K. based forecasting firm Energyfiles.

Others, including the International Energy Agency and Global Insight, have more conservative forecasts, pegging Vietnam's 2015 output around 350,000 to 380,000 barrels a day. That is only a little more than estimated output of 321,000 barrels a day in April.

"Our reasoning is that exploration work hasn't proceeded fast enough or with the sort of impact on reserves as was initially expected to offset the natural decline of major producing fields," Mr. Knell said.

Theoretically, this will leave Vietnam with less crude oil to export by the time all the new refineries are up and running -- or worse, Vietnam could turn a net crude-oil importer.

Falling crude-oil exports from Vietnam would come as bad news for Asian buyers, with output elsewhere in Asia failing to keep up with rising demand.

Another Southeast Asian crude-oil producer, Indonesia, became a net crude-oil importer in 2004, though the country still exports some crude oil to Asian buyers such as South Korea and Japan.

"It is certainly true that Asian oil importers will have progressively less choice over where to purchase oil," said Energyfiles' Mr. Smith.

With domestic oil demand growing fast, Vietnam needs to develop its downstream sector to reduce excessive reliance on oil-product imports.

In May, the country earned $590 million by selling its crude oil to countries like South Korea and Japan, but it spent $552 million buying oil products, according to the latest government figures. Vietnam is a major importer of gasoil from South Korea, Taiwan and Singapore.

Vietnam is building its first refinery with a total capacity of 148,000 barrels a day in Dung Quat in central Quang Ngai province, hoping to bring it online by 2009.

The $2.5 billion project has been long delayed. Although it was discussed by the government as far back as 1997, construction only began in late 2005, partly because of lack of funds.

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