PORTLAND MARKET REPORT

June update

The EU referendum is now less than a month away, so we should ask the question whether "Brexit" would have a big impact on the oil industry? On the surface, it would seem naïve to think that the oil industry could come out unscathed on the back of such a big decision. But then again, this is oil…the most global of all industries and an industry where countries, continents, currencies and cultures are all seemingly straddled with absolute ease…

Many of the pro and anti EU arguments have obviously been financial and of course, the potential weakening of the £ is certainly one area where the oil market in the UK would be affected. Since 2015, the value of the £ has gone down from an average of £1.53 per $ to a (YTD) figure of £1.43 and some commentators are predicting further drops in the final days before the 23rd June vote. As ever with currency movement, drops in value rarely seem dramatic, but in fact a 0.1 £ / $ fall equates to a 7% devaluation, which in turn generates a fuel price increase of 1.5 pence per litre. That's still no big deal you may say, but for a 50 truck haulage firm, that's a £40K pa increase in costs - significant for a sector where margins are wafer thin. So "Remainers" have used the currency weakness argument as a good reason to stay in the EU, but isn't the current £ weakness simply a result of all the uncertainty surrounding the Referendum itself? Isn't it likely that once the Referendum vote has been resolved either way, then the £ will find its own natural value in the market? What's more, if the £ is to weaken, let us not forget that both our exploration and refining industries produce in £ (ie, local costs) but sell in $ and they therefore would likely benefit from a weakening of the £GBP.

So where else is oil on the front line of the EU debate? Well, speak to producers in the North Sea and many will tell you that they are fearful of the possible restrictions in the free movement of labour and the potential future inability to easily recruit EU nationals (if this seems far-fetched, just go out in Aberdeen on a "change-over" day and visit the pubs for the ultimate aural cocktail of "Euro English"!). The downstream distribution sector is also concerned about this same issue, with employers worrying about their ability to find trained and trainable tanker drivers post-Brexit. This does seem a credible concern, although as ever in this industry, "money talks" and when prices are high so are wages. The result is that both employees and employers will do what is necessary to fill jobs in the sector, irrespective of legislation that makes that process more burdensome.

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Another obvious example of where oil sits at the heart of the EU debate concerns the "Scottish Question", because it seems very likely that another Independence Referendum would take place should Britain vote to leave the EU. Clearly if that was to happen, the upheaval for the UK's Oil & Gas industry would be significant (even if it was just the process of having another referendum that still yielded the same result as 2014). But even so, its impact would still be far less profound than the economic consequences of the drop in price from $120 to below $50 last year. Equally, for the major investors in the North Sea, it is the price of oil and not the political environment that drives investment. For example, it would seem unlikely that the biggest investor in the North Sea (Total – a French company) would be happy with a Brexit decision, but at the same time, it seems even more unlikely that they would halt their massive 10-year investment programme for any other reason than a seriously prolonged slump in oil prices. In this light, Britain leaving the EU would not be factor.

Moving the debate from the "upstream" to the "downstream", it is true that there exists some points of view at the "quirkier" end of the spectrum(!). One such argument concerns emissions and how Brexit may provide salvation for manufacturers of diesel cars. So stringent are the new EU emissions regulations that many commentators predict they will effectively be the death knell for passenger diesel cars. Therefore if the UK was to leave the EU, this would exempt us from the emissions legislation and create a home for unwanted diesel cars - the glut of which would push British car prices considerably southwards. What tosh! This really is far too tenuous to take seriously and besides, any supposed price benefit would be so short-lived because the British market for diesel cars alone, could not sustain ongoing mass production.

If we look at the industry in its broadest sense, it's difficult to see how Brexit would be any different to Remaining. Let's face it, the levels of Health & Safety legislation for an industry as hazardous as Oil, Gas and Petro-Chemicals will be the same, irrespective of who administers them. And from an economic perspective it seems abundantly clear that the oil industry exists within its own Economic Union of Supply & Demand. In fact, the very reasons that people are so wary of oil - its ability to operate across national boundaries, its opacity when it comes to market structures and its adherence only to price – are the very same reasons that the impact on the industry will be so limited - irrespective of the result. Finally, to pre-empt the 3 or 4 emails that will be received demanding a clear view on the subject of Brexit, Portland – whilst finding the wild claims of both sides predictably tedious* – sits in the Remain camp. For a set of reasons that have nothing to do with the oil industry!

For more pricing information, see page 22

Portland Fuel Price Protection
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