
Press Release



Release Date: March 13, 2014

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Northeast Asian Oil Hub Development Plan

Characteristics of the Plan Announced

Since 2008, several plans related to the development of a Northeast Asian Oil Hub have been announced, and these have focused on the development of the storage facilities, the vision for the Northeast Asian Oil Hub or the implementation direction of related measures. The Northeast Asian Oil Hub Development Plan that has been newly announced is an action plan jointly set up by related government organizations, and includes detailed measures developed through surveys on the actual needs of operators of storage facilities and traders; and joint research among research organizations and government organizations.

Key Elements of the Plan

As oil trade should be activated first, after which traders should be attracted and the financial infrastructure expanded to successfully develop the Oil Hub, this Plan focuses on the measures to solve the issues of and improve the current system, which has disturbed the activation of oil trade.

First, oil refining facilities will be turned into bonded factories to streamline taxation and tax refund procedures, and the regulations on the processing and transportation of bonded cargo will be eased. In addition, regulations on blending or other activities will be eased so that oil products can be mixed or processed into high value-added products with additives.

In addition, measures to develop the oil and logistics hub into a financial hub are also included to the plan, including improvement of the financial infrastructure and tax incentives geared toward attracting oil traders to Korea based on future activation of trade.

Motivation and Types of Oil Trade

Types of oil trade include direct trade for consumption, brokered trade through traders and the trading of derivatives through financial organizations. Direct trade refers to transactions in which a consumer directly purchases a volume of oil from a crude oil producer or an oil product manufacturer for actual consumption.

A brokered trade is a transaction made through an oil trader to gain margin by taking advantage of oil price gaps, between oil types or between regions. A trade of derivatives is a transaction that does not involve logistical transactions. The oil to be supplied in the future or the right (option) to purchase or sell oil under a specific condition are traded.

Foreign Cases and Advantages of Korea

The period and the background of development varies, but the US Gulf Coast, ARA in Europe and Singapore are recognized as three major oil hubs. The US Gulf Coast and ARA, Europe, have been naturally developed over the long term, with large-sized oil production sites and storage facilities built adjacent to locations of consumers as centers. Meanwhile, Singapore has rapidly emerged as an oil hub of Asia in a relatively short period of time, thanks to the government's clear vision and strategic setting of targets.

As Singapore has lost its power due to the rapid growth of oil trade volumes in Northeast Asia, the demand for a new oil hub in Northeast Asia has been constantly increasing. Korea is most favorably situated to be an oil hub of Northeast Asia, considering its geopolitical location, the world-class refinery plants, its deep sea and its ideal port conditions.

China's ports have a number of chronic issues, including shallow waters, weak oil refinery skills and the fact that sailing is suspended for 50 days per year on average due to fog and freezing. Meanwhile, Japan has the disadvantages of high port logistics costs and frequent natural disasters, including typhoons and earthquakes.

Ulsan, as the world's No. 4 liquid terminal following Houston (US), ARA (Europe) and Singapore, has already secured the ideal conditions to grow into an oil hub. Accordingly, Korea will activate oil trade by easing regulations, and take a phased approach to the attraction of traders and improvement of the financial infrastructure.

Trend of Participation of Global Oil Majors and Domestic Oil Companies

To respond to new logistics demands of Northeast Asia, major oil producing countries and global tank terminal operators are engaged in heated competition to secure oil storage facilities in Northeast Asia. Against this backdrop, VOPAK, which is the world's largest tank terminal operator, and Chinese oil companies have already invested in the oil hub business or are reviewing the plan to expand investments in the future.

Most domestic oil firms are investing into the oil hub business to secure storage facilities.

Expected Benefits of Oil Hub Development

The economic benefits gained through development of the Northeast Asian Oil Hub are estimated to be KRW 3.6 trillion in the short term and KRW 60 trillion in the long term (in terms of GDP growth, Boston Consulting Group).

The massive oil transportation volume created at the Oil Hub is expected to facilitate the development of related industries, including logistics and finance, as well as the existing oil industries. As well, the oil prices will reflect the oil supply and demand status of Northeast Asia, increasing consumer benefits through improved transparency and higher competitiveness of the domestic distribution market. In addition, the storage facilities will be expanded and the volume of domestic oil storage will be increased, which will contribute to improved oil and energy security through the indirect storage effect.