Research

# Hurricane Harvey: A Blow to the Nation's Oil Industry

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### Hurricane Harvey: A Blow to the Nation's Oil Industry

- Hurricane Harvey forced more than 10 major refineries to halt operations with capacity amounts of more than $125 million per day
- Gas prices in the United States have reached a 5-year high, while crude oil prices have tanked
- The effects of this storm will also be felt throughout Europe and Latin America, as the closed refineries were major suppliers to these areas

### Impact

Although it is currently impossible to predict the long-term impact of Hurricane Harvey on the oil and gas sector, the price of

Forecasters are speculating that gas prices will continue to rise as refineries remain closed throughout the week following the storm, if not longer.

According to a recent report by CNBC:

"Benchmark gasoline prices rose to a session peak of $1.7799 per gallon, the highest level since late July 2015, as the refinery outages threatened to create a short-term undersupply of the fuel. Meanwhile, U.S. crude oil prices fell, reflecting lower demand for the raw material at shuttered refineries in the coming days."

To date, Harvey has taken off-line nearly 15 percent of the nation's refining capacity with further interruptions expected[i]. Currently 105 oil and gas production platforms have been evacuated and are closed[ii].

### Refineries

U.S. Gulf Coast refineries house almost half of the United States' oil refining capacity. To date, more than 10 major refineries have initiated controlled shut downs which S&P Global Platts estimates will take more that 2.2 million barrels off line per day[iii]. These refineries include:

- Shells Deer Park Refinery that carries a capacity of 340,000 barrels a day
- Exxon's Baytown Texas Plant with a capacity of 560,000 barrels a day
- Petrobras Pasadena refinery that carries a capacity of 110,000 barrels a day
- Phillips 66 Sweeny Texas Refinery with a capacity of 260,000 barrels a day
- Marathons Galveston Refinery with a capacity of 460,000 barrels a day
- Access Industrial plan with a capacity of 260,000 barrels a day
- Additional refineries in Corpus Christi that process over 700,000 barrels per day which are owned by Flint Hills, Valero and Citgo have also battened up the hatches[iv].

Using today's price of oil at $46.57, the shutdown of these refineries (assuming operation at full capacity) means lost

### Production

The Bureau of Safety and Environmental Enforcement (BSEE) released a figure stating that 21.6% percent of current oil production in the Gulf of Mexico has been "shut-in." The BSEE estimates the loss will be approximately 378,633 barrels per day or 5 percent of nationwide output; this amounts to a loss of about $17.6 million dollars per day using today's price of oil.

### Global Implications

The storm's damage to, U.S. refineries will impact markets far beyond our borders.  A recent Reuters article explained that "If (U.S.) refineries shut down for more than a week, Asia will need to run at a higher level, because there's no spare capacity in Europe." A report by JP Morgan noted that the consequences of a major disruption on the U.S Gulf Coast will be felt in the pricing of oil product markets in Latin America and Europe and crude markets as far away as Asia[v]."

### Conclusion

While the full impact of Hurricane Harvey on Gulf Coast oil production is still a wait-and-see

situation, consumers should expect to see a near-term price increase at the gas station. While companies weather the storm, the global market might be slightly reactionary in terms of the price of oil and gas until there is enough information to form a more clear assessment of the damage and timeline to get these refineries back online is in place.

[i] http://www.marketwatch.com/story/us-gas-futures-surge-after-storm-harvey-hits-texas-wti-crude-prices-fall-2017-08-28

[ii] http://money.cnn.com/2017/08/27/news/economy/tropical-storm-harvey-texas-oil-gas/index.html

[iii] http://money.cnn.com/2017/08/27/news/economy/tropical-storm-harvey-texas-oil-gas/index.html

[iv] https://www.cnbc.com/2017/08/27/hurricane-harvey-refineries-shutting-down.html

[v] https://en.trend.az/business/energy/2790562.html