PetrolPlaza

Drivers face chronic fuel shortages and soaring petrol prices as one of the UK's biggest refineries goes bankrupt

Industry news
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Motorists face chronic fuel shortages and soaring prices at the pumps after one of Britain's biggest fuel refineries went bust, petrol retailers have warned. Forecourt bosses and MPs said there was a risk of parts of the South East 'grinding to a halt' amid reports production had stopped at the Coryton refinery, which supplies around a fifth of the fuel in the region and 10 per cent of the UK's supplies. The closure of the giant Essex refinery also threatens to push up pump prices as supplies diminish

The warning came as the refinery's Swiss parent company Petroplus said talks with its lenders had broken down and it would be filing for insolvency with the loss of up to 1,000 UK jobs.

Petrol retailers warned Treasury minister Danny Alexander in a face-to-face meeting that the financial crisis at the Coryton refinery in Essex - one of the UK's biggest suppliers of fuel - would cause chaos at the forecourts if it ceased production.

RMI Petrol chairman Brian Madderson said: 'I told him the Government needed to be aware that the refinery was in a critical state. It's amber alert. I asked him what were the contingency plans.' With reserves at 'an all time low' Mr Madderson said: 'The country could grind to a halt.'

He added Mr Alexander told him the Government was keeping a watching brief on events and that he had been trying in vain to speak to the Department for Energy. 'After warning them last week I wanted to ask what contingency plans have been put in place,' he said. 'But they're not returning my calls.'

Petrol stations fear a repeat of the chaos in Scotland when the giant Grangemouth refinery was hit by strike action – leading to pumps running dry and cases of fuel rationing.

Instability in Iran and their threat to blockade key oil tanker routes in the Straits of Hormuz the Gulf, coupled with the strong dollar, is also storing up trouble, the retailers warned.

A group of European parliamentarians including East of England MEP Richard Howitt have been discussing ways to save jobs at Petroplus, which has facilities in France, Germany, Belgium, Switzerland and the UK.

Mr Howitt told BBC Radio 5 Live the refinery was being dragged down by its parent company. He said half the jobs were well-paid, highly skilled positions, while the other half were contractors, many of whom have already received their redundancy notices.

Mr Howitt said: 'One thousand job losses in Essex will have a devastating impact on the local economy. I don't want to be alarmist about this, but I don't want to be dishonest either. Supplies across London and the South East could be affected and I have been told this could impact the Olympics.'

He added that the closure could lead to petrol shortages and called on the Government to prevent 'devastating consequences'. The MEP said: 'The Government cannot continue to stand back from the devastating consequences of this crisis. The Government has failed to heed our warnings and done nothing to protect the jobs in my constituency and must now recognise it has a duty to assure security of supply without further delay.'

Motorists are already on course for a 2p a litre fuel price hike at the pumps that could take diesel prices to a new record high, the AA has warned. It is adding £4.25 a month to already hard-pressed family budgets and increasing the cost of a fill-up for 'Mondeo Man' by £1.40

The AA said drivers have already seen a 1p a litre rise over the last fortnight - with another 1p now in the pipeline as wholesale prices rises work their way through to forecourts. It said latest data from industry price trackers Experian Catalist showed that the latest average pump prices for petrol are 133.66p, compared to 128.14p a year ago , and 111.80p in mid January 2010. Diesel is now averaging 142.07p a litre compared to 132.53p a year ago and 111.91p in mid January 2010.

Record pump prices set on 9 May 2011 are 137.43p a litre for petrol and 143.04p for diesel.

The AA urged motorists to not to panic buy, which could drain petrol stations of their reserves and lead to queues on the forecourts. Spokesman Luke Bosdet said: 'The only problem comes when petrol stations run dry and people think it's happening all over the place. That can put the supply out of sync.' He warned motorists to 'use their heads' when it comes finding alternative sources.

The Unite union said it was in dialogue with the owners of Coryton to try to assist the refinery. National officer Linda McCulloch said: 'One thousand jobs are at risk but we firmly believe that joint action by the owners and Government can help secure the business. We are in constant dialogue with Petroplus and their Swiss owners, and the UK Government. We are stressing to the workers that their interests are our absolute priority. It is vital that these negotiations are conducted in an atmosphere of calm to allow the best buyer to be found for the site.'

Petroplus and the refinery situation . . .

There only eight refineries in the UK - at Fawley near Southampton, Grangemouth, Stanlow, Milford Haven, Lindsey in north Lincolnshire, South Killingholme and Pembroke, as well as Coryton. They may now be called upon to help make up the shortfall following the 586-acre Essex site's closure.

Zurich-based Petroplus has reportedly been struggling with bankruptcy since last year with oil prices spiralling and credit hard to come by. It previously owned a refinery in Teesside, which closed in 2009.

Petroplus admitted that talks with lenders had broken down and its European refineries - including Coryton, which produces 175,000 barrels of crude oil per day - would close. Petroplus said its primary goal was 'to ensure that operations are safely shut down and to preserve value for all stakeholders.'

CEO Jean-Paul Vettier said: 'It is unfortunate to have reached the point where the Executive Committee and Board of Directors have to inform our employees, shareholders, bondholders and other stakeholders about these circumstances. We have worked hard to avoid this outcome, but were ultimately not able to come to an agreement with our lenders to resolve these issues given the very tight and difficult European credit and refining markets. We are fully aware of the impact that this will have on our workforce, their families and the communities where we have operated our businesses.'

Coryton, which stands close to the M25, was bought by Petroplus from BP for $1.4billion (£714.6m) in June 2007. It began operating in 1953, producing petrol and diesel, new 'cleaner' fuels, aviation fuels, liquefied petroleum gas, fuel oils and bitumen for roadworks.

Mick Ainsley, an official at trade union GMB, said: 'GMB has been dealing with the situation at Coryton since before Christmas when Petroplus told contractors to tighten their belts. Some members have already taken redundancy. Coryton has done well but is the victim of the under-performing European arm. The impact of any further redundancies would be felt locally and in the capital. 'The Government needs to step in to ensure that this refinery is kept in operation.'

The refining market has come under pressure in recent years as operating expenses and the cost of crude oil surge at a greater rate than the value of the products. A survey carried out by energy consultancy Wood Mackenzie in 2010 showed that 29 of 96 refineries in the EU did not generate a positive net cash margin. However, the market has become tougher as the economic downturn in Europe has hit demand for transport fuels and competition has grown from the refineries in Asia.

Petroplus reported a net loss of $413million (£265m) in the first nine months of last year, while in December its banks withdrew a $1.05bn (£675m) portion of its $2.01bn (£1.29bn) credit facility.

The other main supplier for the South East and London is the Exxon Mobil refinery in Fawley, near Southampton.

There is speculation that former owners BP might be asked to step in to help protect a strategic energy supply. BP, a major customer of the Coryton refinery, said it had no immediate supply issues but it was 'watching the situation very closely'.

The refinery was operating as usual but no deliveries of petrol or other products, including bitumen, were leaving the site, according to union officials. Russ Ball, regional officer of Unite, said lorries would be 'stacking up' and were not allowed to leave because of the insolvency arrangements. Crude oil is still being produced and the refinery is operating, but nothing is going out of the gate,' he said. 'I am still confident because the refinery is viable and productive and hopefully we will know more in the next 24 hours.' Petrol deliveries to garages and supplies of bitumen for road building and repairs will be affected 'pretty soon', he said.

Professional services firm PwC confirmed it was appointed as administrator to the UK arm of Petroplus, which includes the Coryton refinery, an oil storage site in Teesside and a research and development site in Swansea. PwC said Petroplus had suffered as a result of 'low refining margins and high restructuring costs'.

Steven Pearson, joint administrator and PwC partner, said: 'Our immediate priority is to continue to operate the Coryton refinery and the Teesside storage business without disruption while the financial position is clarified and restructuring options are explored. Over coming days we intend to commence discussions with a number of parties including customers, employees, the creditors and the Government to secure the future of the Coryton and Teesside sites.' The administrator said no redundancies had been made at this stage.