

COVER STORY

OIL & GAS

MARKET SHARE OF IMPORTERS PER PETROLEUM PRODUCT IN 2017 (TON)

Octane 98 gasoline	Market share (%)
Total	26.8
Coral Oil	17.3
Wardieh	12.8
Medco	10.5
IPT	10.1
Uniterminals	8.2
Apec	4.9
Cogico	4.6
Mediterranean Petroleum Company	2.9
Universal Gas	1.8

Octane 95 gasoline	Market share (%)
Total	18
Coral Oil	15.6
Medco	11.2
Uniterminals	10.2
Wardieh	9.8
Cogico	9.2
Apec	7.3
IPT	7.1
Mediterranean Petroleum Company	5.4
Liquigas	3.2
Universal Gas	3

MARKET SHARE

There are 19 active companies that import oil and gas products, in addition to Holcim and Cimenterie Nationale, which import fuel oil to operate their cement plants. The market is overcrowded. For example, the number of importers exceeds those in neighboring countries. According to a 2010 study by the Association of Petroleum Importing Companies (APIC), there are more local importers than in France (18 companies), Syria (15), and Jordan (five). Total is the largest gasoline importer, while Uniterminals, a wholesaler, is the largest importer of gas oil and asphalt. *Zakhia Issa*, Board Member at IPT – a gasoline and gas oil importer – said that the company plans to increase its market share in the future: “We are improving our service, strengthening our infrastructure, and becoming more geographically present.” The company plans to rehabilitate its terminal to make it easier for trucks to carry larger loads. It is buying new trucks to serve more gas stations and is franchising new gas stations. There are currently 35 stations directly managed by the company and around 145 franchised stations. While gasoline and gas oil importers are plenty, gas imports are restricted to five companies. Gaz Orient represents more than half of Liquefied Petroleum Gas (LPG) imports.

THE CYCLE

Products are transported using international shipping lines, aboard 30,000 metric ton tankers. The importer has to pay permit and customs fees before an oil tanker enters the market. When the vessel enters territorial waters, an independent inspector sent by the Directorate of Petroleum collects samples from its reservoirs and distributes them to

Diesel oil/ Green gas oil	Market share (%)
Uniterminals	22.4
Liquigas	14.1
Cogico	12.3
Coral Oil	10.6
Medco	9.8
Total	6.9
IPT	6
Gefco	5.3
Wardieh	4.4
Mediterranean Petroleum Company	3.8
Apec	3.3
Universal Gas	1.1

Kerosene/ Jet fuel	Market share (%)
Wardieh	29.1
Coral Oil	29
Medco	27.3
Cogico	14.6

Source: Directorate of Petroleum

stakeholders. A Customs representative is present during the sample taking process. Samples are sent to two labs, either in Tripoli, Zahrani, or Dora. Importers are not allowed to know to which labs the samples are sent. The labs make sure that products conform to local specifications. “We have sent back several ships carrying jet fuel, gasoline, and gas oil because they were not compliant with our standards,” Feghali said. When the products are cleared they are pumped into storage tanks using a submarine pipe. Products are then moved by trucks to the customer, be it a gas station, trader, or factory. Private companies import petroleum products mainly from European countries like Greece, Italy, and France. In some cases,

Asphalt	Market share (%)
Uniterminals	43.9
Arabian Petroleum Supply Company (APSACO)	19.4
Gefco	18.8
Meamar for Engineering and Development	14.9
Shaitly Establishment	2.1
Cogico	0.9

Butane	Market share (%)
Gaz Orient	56
Sidaco	27
Apec	10.4
Nord Gas	6.6

Butane (other)	Market share (%)
Gaz Orient	100

products are imported from Russia. *Maroun Chammas*, former Chairman of APIC, said: “It is natural that products come from the Eastern Mediterranean because the cost of freight is less and there are refineries in those countries.” Private companies are free to import from whatever source they want, provided that the products are up to the local standards. Each company has its own sea terminal, where oil products are offloaded. Terminals are found along the coast, from Jiyeh to Dora and Tripoli. The State uses two public terminals in Zahrani and Tripoli. LPG importers have a deal with Greece-based Naftomar which supplies the market with propane and butane. “Because it is expensive for each company to import

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on its own, importers struck the deal with Naftomar so that no matter what quantity they import, the price remains the same," said *Kaissar Rizkallah*, Chairman of Gaz Orient, a storage hub. There are four points of gas delivery along the coastline. The cycle of delivery for gas is almost the same as that of oil products. In previous years, Gaz Orient was considered a transshipment hub for the region, including Syria and Turkey, before they expanded their storage spaces.

TOO MANY COOKS

The market is not only overpopulated with suppliers, but also with public authorities and private syndicates that are involved in the sector. APIC represents a platform to discuss controversial issues concerning the industry, such as new legislation, safety issues, environmental impact, and the companies' relationship with ministries. The importers themselves must interact with several ministries in order to acquire permits and on regulatory issues. For example, they deal with the Ministry of Economy on issues related to consumer protection, quantity standards, and calibration. They also deal with Customs, which has a dedicated office to process oil imports. Importers also collaborate with the Ministry of Energy for import permits, market regulation, and pricing. The Ministry of Public Works and Transport issues permits related to the operations of the sea terminals. The Ministry of Interior issues permits for the trucks that distribute products. Chammas, who is also Vice Chairman and General Manager of Mediterranean Oil Shipping & Transport Co. (MEDCO), an oil importer with 200 gas stations, said that oil companies are self-regulated. "We do not wait for the government to impose a certain regulation on us because we already deal with international companies that follow high standards," he said. There are also syndicates for oil truck owners, gas filling centers, and gas bottle distributors. Each of these syndicates participates in the drafting of new laws and in pressing for change.

GROWING DEMAND

Demand is segmented according to the type of gas product. As such, the following examples are general. While gasoline is used by passenger cars, gas oil is used for trucks, heating, private generators, and factories. Red gas oil is used by Electricité du Liban to operate power plants. Propane is



Importers of oil and gas sometimes share vessels to reduce freight cost

MARKET SHARE OIL IMPORTS (TON)

Company	Quantity	Market share (%)
Uniterminals	643,106	15
Coral Oil	596,551	14
Total	526,390	12
Medco	478,881	11
Cogico	435,796	10
Wardieh	371,659	9
Liquigas	306,663	7
IPT	262,698	6
Apec	205,265	5
Mediterranean Petroleum Company	171,581	4
Gefco	111,798	3
Universal Gas	79,485	2
APSACO	18,165	0.4
Meamar for Engineering and Development	13,973	0.33
Shaitly Establishment	1,973	0.05
Total	4,208,044	100

- Imports include Octane 95-98, diesel oil, asphalt, and kerosene

Source: Directorate of Petroleum

- They exclude cement companies and State imports

- Import permits are issued by the Directorate of Petroleum. Actual market share can be difficult to determine, because importers sometimes carry the products of other companies in order to fully utilize their equipment and reduce freight costs. Although they compete in the same sector, some importers will offer their facilities and resources to other companies when it makes sense to do so. For instance, Uniterminals is renting Gefco's facilities for a specific period of time, increasing its market share in diesel to 28 percent.

used by restaurants, factories, bakeries and hospitals, while butane is used by homes. Demand for oil and gas products is affected by weather conditions. Naturally, demand for gas and gas oil is higher in the winter than in the summer. Demand for gasoline has steadily grown over time. But results are mixed when considering gas stations. Some station owners say that demand for gasoline has dropped over time because consumers

are buying smaller, more fuel-efficient cars. "People perceive that gasoline demand grew due to the presence of Syrian refugees who actually rely on other types of products, like diesel, for heating," Chammas said. Demand for gas products has been growing steadily at a rate of five to seven percent year-on-year, except for the years that witnessed a massive refugee influx, when demand grew by over ten percent.

STORAGE AND DISTRIBUTION

All importers have their own storage facilities. Other companies only have storage facilities, while others have storage, distribution, and gas stations. One of the distributors and storage companies is Hodico, which has gas stations under the brand HIF. There are 1,240 trucks that move oil products across the market, almost half of which belong to APIC members and gas importers. These importers also hire independent drivers to transport products to gas stations, companies, and factories. There are 150 gas filling centers and 1,000 distributors that are registered with the Chambers of Commerce, Industry, and Agriculture, according to *Farid Zeinoun*, Chairman of the Syndicate of Gas Distributors. Gas distributors fill their trucks with gas bottles at filling centers and distribute them to shops, restaurants, offices, and factories. Zeinoun estimates that there are over 20,000 points of sale for gas bottles, as they can be sold anywhere, from a gas station to a grocery store. The five gas importers represent ten percent of the distribution sector, while independent distributors are syndicate members. *Eliane Charabati*, CEO of Transpetrol, is one of very few women to head a company in the oil transport business. The company is one of eight that carry Total products across the market. Spherical tanks are used for the storage of pressurized LPG in order to minimize stress concentration. Gaz Orient is the largest LPG storage hub in the market, with a capacity of 23,000 tons. Gas importers generally have LPG

tanks, but they frequently use Gaz Orient's facility because of its large capacity and its capacity to mix different types of LPG per the customers' needs. The company receives around 50 tankers per year. Currently, ships that carry 5,000 tons of LPG can dock at the company's terminal, but in the past, at the time of transshipment, the facility catered to 50,000 ton vessels. It is the only local company that mixes different types of LPG. "It also depends on where the ship is going besides here and what it is going to deliver," Rizkallah said. Ideally, the company holds enough stock to operate for two months keeping its tanks full as much as possible. "During the 2006 war with Israel, if the company didn't have its tanks full, there would have been a gas crisis in the market," Rizkallah said. Uniterminals keeps a stock of diesel and gasoline that can last three weeks to a month.

NOT YOUR AVERAGE GAS STATION

The market has an oversupply of gas stations. According to a 2010 APIC study, the country has almost 12 times more gas stations than Cyprus. *Fadi Abou Chacra*, advisor to the Syndicate of Gas Station Owners, said that there are currently 3,100 gas stations in total. Almost half are licensed and around 400 stations are directly managed by importers. Salim Ramadan, General Manager of Uniterminals, estimates that

independent gas stations represent around 25 percent of the market. The large number of stations has forced owners to offer customers added value. This is being done by providing gasoline with additives and by launching new services. Total's additive gasoline is called Effimax, Medco's is

called Propell, and IPT's is Quantum. Importers claim that these additives reduce consumption and polluting emissions, and increase engine performance. Services found inside gas stations include supermarkets, courier services, and restaurants. These services do not increase the profits of the gas station,

but they help attract customers, according to Chammas. IPT was the first to introduce laser wash, a touch-free cleaning system, to the market, said Issa. The company was responsible for many firsts. It brought Mountain Mudd coffee – one of the leading drive-thru coffee brands in the US – to the market and was the first to host a McDonald's. "We also launched self-service, where customers who fill up their own tanks get a LL1,000 discount," Issa said. Because of these growing services, a gas station has become a meeting point for customers. "Gas stations were once perceived as oil-stained places to fill up your gas tank. Nowadays, they are hubs that cater to motorists, with quality food, coffee, and a place to take a break while on the road," he said. IPT's owners are trying to make the service at their stations consistent, and are 80 percent there, according to Issa. A gas station, according to Abou Chacra, costs at least \$700,000, not including the cost of the land. The tanks at a medium-sized, southbound gas station in Jiyeh, for example, are filled once a week with 20,000 liters of gasoline.

COST AND INVESTMENT

"The price of the products and freight are our biggest cost," said Ramadan of Uniterminals, wholesalers of petroleum products. Oil importers monitor the change in international technical specifications for transport and storage on a continuous basis. They place their largest investments in the infrastructure through which products pass and in which they are stored. "Projects are always ongoing. We have to be up-to-date in terms of reception of product, quality, and safety," Chammas said. Importers spend a lot of time and money maintaining their

Ten years from now, a gas station might not sell gasoline anymore



IPT attempts to encourage customers to fill up their tanks through a "do-it-yourself" strategy

STICKING TO REGULATIONS

The Directorate of Petroleum is working on improving the safety and driving skills of truck drivers. It is coordinating with other stakeholders, such as the Civil Defense, to conduct workshops for drivers. "These workshops are mandatory and should be taken every two years," Feghali said. If the driver does not take them, he will not be permitted to drive trucks. The same concept is being applied to drivers of gas bottle trucks. The Directorate is also working with Khatib & Alami, engineering consultants, to come up with emergency and disaster management plans for all oil-related facilities. At Transpetrol, drivers are trained regularly and must adhere to certain rules and procedures to ensure high standards. The company has installed MiX Telematics software on its eight-truck fleet. The software allows Charabati to monitor the driver's actions every step of the way. "If the driver is talking on the phone, if he drives too fast, if he stops abruptly, we will know," she said. The transport business is audited by Total's outsourced inspectors to make sure that quality is not jeopardized. Charabati spends over \$2,000 per month to train her employees. Most of Gaz Orient's storage was above ground. But due to successive security incidents, the company upgraded its facilities to make them safer. It now has mounded tanks, which are buried in the ground under layers of sand. The aboveground spherical tanks, which can be seen from the Dora highway, are still used, but most of the products are now stored in the mounded tanks. Sea terminals must conform with international norms. If they do not, the exporter can refuse to send a tanker to the terminal.

CHALLENGES

Abou Chacra said that the Ministry of Interior is giving private trucks public license plates. The growing number of public truck drivers is increasing competition and making profits more difficult to achieve. For large importers, like Uniterminals, the main challenge lies in delays in payment. Ramadan said: "We have \$70 million in uncollected sales in the market." This situation has been going on for over a year. Not all companies can overcome such financial difficulties. "We are a self-financed company and are liquid enough to pass through the crisis," he said. Uniterminals, which is also the largest asphalt seller, is not getting paid for their products. "Public



LPG storage tanks at Gaz Orient in Dora seaside

contractors are not paying us because the Government is not paying them," he said. Uniterminals is lending to such companies for up to seven months. Because of market saturation within the entire sector, from importing, to distribution, transportation, and gas stations, profits are dwindling. Each section has voiced the need to increase their commission. For Charabati, the challenge is more personal. "It is difficult to force control over men, especially since I am younger than many of them too," she said. In the gas distribution sector, there are only 19 licensed gas filling centers. The rest work illegally, according to Zeinoun. He is pushing for a law to organize the sector, and issue regulations and deadlines to upgrade their specifications in order to receive a license. Zeinoun also complained about the drop in profits, because of newly imposed taxes, to support the salary scale. "Profits are illogical when the distributor in Beirut collects the same margin as a distributor that goes all the way to Kernet el Sawda," he said. "We cannot carry on this way. The Minister of Energy should reconsider the pricing structure," he said.

IN THE FUTURE

The Directorate of Petroleum suffers from a shortage of employees. According to Feghali, there is a 40 percent vacancy at the Directorate. She is currently working to close the employment gap using the Civil Service Board. The previous Cabinet agreed to appoint six engineers, but Feghali is waiting for the upcoming Cabinet to hire the rest. Positive changes are also coming for the private sector. Gas stations might see the largest change. "Ten years from now, a

gas station might not sell gasoline anymore. It will be everything but a gas station," said Issa, referring to the increasing number of convenience stores and other services that are available at stations. But much change is still needed. A draft law that regulates the presence of gas stations has been hibernating in parliamentary offices for over three years. Abou Chacra highlighted its importance, saying that stations need to be at least 2,000 meters apart instead of 800 meters, as they are today. The draft also settles the presence of unlicensed stations. Chammas,

Market demand for gasoline has grown steadily in recent years

on the other hand, is hoping that the Government will give importers tax breaks, "just like in other countries, where importers invest in infrastructure." Gas distributors are asking for new laws whereby bottles are inspected and a fee is paid for their maintenance. Rizkallah

of Gaz Orient points out that government officials understand the problems, but believes there is still room for the improvement of bureaucratic procedures. "The more time the vessel stays at the dock, the more it costs," he said. Regardless of their reservations, stakeholders are lobbying for the passage of laws to improve the sector and reduce their costs.

Reported by Yasmine Alieh

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More information is available by typing the numbers below into the Reference Finder on our home page

- ▶ L0918-113 APIC study
- ▶ L0918-114 Directorate of Petroleum 2017 imports record
- ▶ L0918-115 Contact information

▶ www.opportunities.com.lb