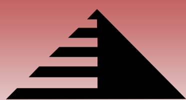

Hoekstra Trading LLC

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PROCESS OPERATIONS

High Catalyst Costs helped bring down Petroplus

By George Hoekstra, Hoekstra Trading LLC

Before declaring insolvency in January 2012, Petroplus was making good progress toward reducing operating costs in their refineries. The goal was to achieve operating cost savings of $80 million per year within three years. In 2011alone, $50 million savings were achieved through staffing level reductions (both employees and contractors), pension plan adjustments, and maintenance cost efficiencies.

But the benefits of that hard work were wiped out by two big surprises in 2011. They were 1) negative foreign exchange impacts ($35 million), and 2) unexpected catalyst cost increases ($20 million). These unexpected cost increases were big factors in the Petroplus insolvency and the ensuing shutdown of five European refineries in January 2012.

For several years prior to insolvency, Petroplus employees knew they had big opportunities in the area of catalyst selection and procurement. But efforts to achieve these savings were thwarted by resistance to change across the Petroplus group, especially in how catalyst decisions were reached and contracts awarded. Historical relationships and old ways of working proved impossible to break. As a result, Petroplus suffered intolerable catalyst cost.

Late in 2011, the Petroplus Coryton UK refinery, acting on its own, took steps to enable improved catalyst strategy. These steps included purchase of the shared-cost independent catalyst testing data offered through Hoekstra Trading LLC. The Coryton refinery is now using the Hoekstra Trading data as part of a larger strategy to choose the best catalysts for each unit's service, buy those catalysts at better prices, and protect from the risk of bad surprises in the future.

Currently, only the Coryton UK and Antwerp Belgium refineries remain in operation. The future of both refineries remains uncertain; but it is clear that their future will be accompanied by new ways of working to protect from $20 million surprises in catalyst cost. ■

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