

CATEGORY

EV Sales Aren't Making Up for Refinery Closures

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Forget peak oil. Forget peak demand. The thing is peak refinery throughput capacity.

We've been disappointed with the performance of the US energy sector this year, especially given President Donald J. Trump's aggressive deregulation efforts touching both supply and demand. On a global basis – and crude oil is very much a global market – it hasn't made any difference because neither supply nor demand are chokepoints, despite all the perennial talk of “peak oil” and “peak demand.” The chokepoint is refining capacity, which the western world has systematically decimated over a decade-plus of misguided green initiatives. Year-to-date, with the US energy sector up only 2.1%, the refiner sector is up 30.8%.

US/Atlantic Basin crack spreads – the difference between the cost of crude oil and the market price for a barrel of refined products – are rising [after a significant contraction throughout 2024](#). We expect they will move higher and continue to lift sector stock prices as regional fuel demand outpaces domestically supplied refined products.

- Demand is rising, but reduced capacity is the key. Regional refinery capacity in the countries that border the Atlantic Ocean has fallen 10% – or 4 million out of 44 million barrels per day – since the Great Recession just 16 years ago.
- Without a combined 1 million barrels per day in new capacity from new refineries in [Nigeria](#) and [Mexico](#) coming online over the past two years, the Atlantic Basin would have lost 11% of its capacity, mostly from Europe.
- Both new refineries are running well below capacity due to either feedstock issues or design problems. [Dangote](#) is averaging less than two-thirds of its 650,000 b/d capacity. Mexico's [Dos Bocas 340,000 b/d refinery](#) has been plagued by problems since commencing operations, averaging less than 10% capacity utilization. Both refineries' gasoline production is the problem.

The western nations' environmentally-focused strategy to reduce refinery capacity was contingent on a concomitant reduction in transportation fuel demand as subsidized battery electric vehicle (BEV) sales were to conquer the light-duty vehicle market. But while BEV sales got out of the gate fast due to massive pandemic-era subsidies, [they constitute two](#)

Update to strategic view

OIL, US STOCKS: For years the Western nations, especially Europe, have been reducing refining capacity in the wrong-headed expectation that electric vehicles would quickly proliferate. Despite subsidies, they have not. Now the subsidies are ending, and the electric vehicles of choice are extended-range models with onboard internal combustion generators. As a result, crack spreads have risen sharply, and US refining stocks have performed strongly this year against the backdrop of poor performance by the energy sector overall. Crude is well supplied, with OPEC raising production quotas and Russian supplies being shipped overseas while its own refineries are under attack by Ukraine. Global demand continues to increase, and it takes time to create new refinery capacity, even in the US where Trump's deregulatory efforts at least point in a constructive direction. With global demand growing and global inventories depleted, we reiterate our target price range for Brent of \$60 to \$80.

[\[Strategy dashboard\]](#)

[percent of the 295 million light-duty vehicle fleet in Europe](#) (see “[Europe’s EV Miracle Doesn’t Live Up to the Hype](#)” November 22, 2021). Looking at IEA projections of only slightly increasing global liquid oil demand ([700,000 b/d for both 2025 and 2026](#)), the international energy agency has not adjusted for [the gradual reduction of EU](#) and [sudden elimination of US EV subsidies](#) that are already diminishing BEV sales throughout the Atlantic Basin (see “[Electric Vehicles Still Run on Oil](#)” August 28, 2025).

Hybrid vehicle sales [are displacing BEV sales](#) in Europe and the US, creating higher than forecasted fuel demand. At the same time, [evidence points to a gradual reversal of the pandemic work-from-home trend](#), (see “[Data Insights: High Frequency Data and DOGE Monitor](#)” September 25, 2025), requiring more miles travelled and higher per capita fuel consumption. *These trends are beginning to create a fuel supply/demand mismatch, requiring more Atlantic Basin net fuel imports from Asian and Middle Eastern refiners*, which traverse longer distances through riskier geo-political supply routes – entailing higher transportation and insurance costs. *This mismatch, along with concerns about security of supply, should keep Atlantic Basin refinery margins elevated.*

Europe is the weakest link in terms of reduced refinery capacity. Anti-fossil fuel rhetoric and [policies](#) went into high gear after the Great Recession. Emission reduction targets made Europe’s refineries less competitive, requiring the industry to lower throughput capacity and convert smaller operations into biofuel plants, or outright closings due to input cost inflation when compared to complex refiners coming online in the Middle East and Asia (see “[Crack Spreads Point North for Crude Prices](#),” February 27, 2023).

Between 2009 and 2012 [1.9 million barrels per day of crude oil processing – or 11% of the total – was taken off line](#) or converted to biofuels, leading to a large rise in 2012 crack spreads. And now a post-pandemic resurgence in European refinery closures is losing another 345,000 barrels per day in throughput volumes. Since the Great Recession, nineteen refineries with about 2.7 million barrels per day of throughput capacity will close in Europe, leaving it with less than 15 million barrels per day of throughput capacity – basically equal to liquid product demand, with no room for error involving maintenance.

Now all that stands revealed as having put the cart before the horse. BEV sales have not been sufficient to allow fuel demand to fall to match the collapse in refining capacity. As recently as 2010, European refineries maintained a net petroleum product surplus of 22.7 million metric tons. In 2023 (the most recent year for which data is available), it was a deficit of 4.9 million metric tons.

In liquid transportation fuels – gasoline, diesel, and jet fuel – the EU went from a deficit of 41,266 barrels per day in 2010 to a deficit of 374,280 in 2023 – requiring a 9% increase in transportation fuel imports. [Before the invasion of Ukraine](#), Russia supplied half of Europe’s diesel imports. By 2025, less than 5% of these imports will originate from Russia. Middle Eastern diesel imports captured most of the market share having risen

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from 14% to 40%. US diesel imports have risen from 3% to 13%. US and Middle Eastern feedstocks are locally sourced, while Turkey, India, and China refine Russian crude volumes – significantly boosting diesel exports from 2% to about 13% combined. When the [18th round of EU sanctions on Russia hit on January 21, 2026](#), countries processing Russian crude will not be able to export diesel to Europe. Theoretically Europe will need to import at least 100,000 barrels per day more (13% of import market) and it will not be coming from the US, or the Americas for that matter.

On the other side of the Atlantic, the American hemisphere has closed seventeen refineries, losing 2.3 million barrels per day in capacity since the Great Recession. In the US alone, there were a dozen refineries closed or converted to biofuels with a net processing capacity of a half million out of a total of 19 million b/d capacity (about a 3% reduction). Since the onset of the Ukraine conflict, US diesel exports to Europe have increased fivefold, reaching 321,000 barrels per day in 2024. Europe's share of total US diesel exports has increased to 25% from 5% before the war.

In 2010, the US was a net *importer* of 9.4 million barrels per day of crude oil and petroleum products. Last year, the US was a net *exporter* of 2.3 million, thanks to the shale revolution. Looking at liquid transportation fuels, the US went from a net positive balance of 467,000 barrels per day in 2010 to 1.87 million last year. Anti-fossil fuel policies impacted refinery decisions to close or convert to biofuels, just as they did in Europe. But in the US, shale gas (half-priced compared to European markets) and crude oil input costs (about \$3 to \$5 per barrel lower than Europe) kept US refinery operations more globally competitive. Still, capacity is declining when the BEV sales outlook is approaching a noticeable downturn in the immediate future.

US BEV sales peaked last year due to the clean vehicle tax credit paid immediately at the point of sale. In 2025, BEV sales are up by about 1.5% year-to-date. By year-end, BEV sales will be flat or down versus 2024 and 2026 should see a large decline, thanks to elimination of tax credits in the One Big Beautiful Bill (see ["Video: What you're not hearing about the One Big Beautiful Bill"](#) July 7, 2025). As in Europe, the cart is before the horse – refinery capacity diminished without BEV sales taking up the slack in demand.

The big chink in US refinery capacity currently is occurring in California's anti-fossil fuel jihad. In addition to the state's avowed goal of banning internal combustion engine vehicles by 2035, Sacramento has imposed various taxes on refinery inputs and industrial emissions [which nearly tripled prices for gasoline and diesel since 2010](#). In-state [crude oil production](#) is off by half, from 549,000 barrels per day in 2010 to 259,000 as of July.

California has done better than other locales with electrifying the fleet, with [gasoline demand falling from 960,000 to 880,000 barrels per day annually from 2010 to 2024](#) – a reduction of 8% or 80,000 barrels per day. Phillips and Valero closing additional throughput capacity of 285,000 barrels per

day soon, California will have only 1.4 million barrels of crude processing capacity, which matches 2024 crude oil demand. But these remaining refiners do not have enough refining capacity to satisfy even state gasoline demand. California will need to increase imports of fuel along with crude oil. So the state is now scrambling to change anti-fossil fuel [legislation](#) and provide [funding for maintaining refineries](#) to keep them open.

During the first Trump administration, crack spreads averaged about \$20 prior to the pandemic and \$18 overall. President Joseph R. Biden, Jr. sought to reduce crude oil's role as a transportation fuel by increasing CAFE standards and electric vehicle subsidies, while also introducing regulations to limit crude oil supply and stop pipeline expansion. These policies, together with events like the Russian invasion of Ukraine, drove crack spreads up to \$32 during his presidency.

The factors that drove crack spreads higher during Biden's presidency (growing fuel demand, reduced Atlantic Basin refinery capacity, sanctions on petroleum producing nations and the war in Ukraine) are inherited in a large part by the second Trump administration.

- More refinery closures in Europe and California. are slated for next year. Asian and Middle East refiners have already added equivalent capacity to replace retiring Atlantic Basin volumes (see "[Crack Spreads Point North for Crude Prices](#)" February 7, 2023), but security of supply issues could easily raise wholesale fuel costs or disrupt shipments.
- [Russia has banned gasoline and tweaked diesel exports to protect its domestic supply until yearend. Domestic diesel and high-octane gasoline prices are at all-time highs.](#) Since mid-2024, Ukraine has conducted over eighty drone strikes on Russian oil and gas infrastructure. [Recent attacks have hit several refiners inside Russia over the past three months](#), placing them offline. While maintenance crews can repair drone damage rather quickly, if missiles are used in the future, operations could be offline for months or years
- While [OPEC is giving President Trump lower oil prices by raising production by 137,000 barrels per day](#) into at least [November](#) and probably the third quarter of 2026, reduced refinery capacity in the Atlantic Basin requires more product imports from outside the region to satisfy higher demand, estimated at [54.4 million b/d](#) by 2028 (an increase of 600,000 barrels per day from 2022) and 10 million over regional refining capacity. Stronger fuel demand will persist as long as hybrid sales significantly outpace those of BEVs. We expect higher refinery utilization ratios to keep crack spreads elevated into next year as previously announced refinery closures occur as planned

The [International Energy Agency](#) has claimed that global supply will increase by 4 million barrels per day over demand in 2026. That said, it "found" 343,000 barrels per day of previously so-called "[missing demand](#)" from 2022 to 2024. Yet now it has not adjusted its future forecast higher,

because it applies the “found” barrels only to historical volumes and fails to adjust future demand in the face of a now-larger base.

We do agree that oversupply is imminent, if not here already. But producers are not (usually) stupid about it. And they can’t always meet their ambitions. OPEC will probably increase quotas by 137,000 barrels per day monthly until third quarter 2026, but not all OPEC+ countries will be able to meet their quotas.

- Russia has been underproducing in 2024 – leaving 100,000 barrels per day off the table – from an average quota of 9.2 million in 2025. We doubt that Russia will reach its expected quota of 9.9 million by September 2026 (if OPEC continues to increase Russia’s quota by 41,000 each month to the end of the third quarter 2026).
- But production and exports are two different things. Attacks by Ukraine on Russian refining infrastructure, as we predicted, have had the dual effect of constraining export of Russian products but accelerating export of Russian crude (see [“The Game Changes for Russian Crude”](#) August 26, 2024).
- Kazakhstan has been producing over 300,000 barrels per day above quota this year and we expect the same in 2026.
- Baghdad reached a fragile deal with Erbil and Ankara to [open up the Ceyhan export pipeline of about 190,000 barrels per day last month](#) after a hiatus of more than two years. The country has complied with OPEC guidelines by reducing production by 100,000 barrels under quota in 2025 after overproducing in 2024.

The US has sanctioned Iran and Venezuela, but current production levels suggest that the Trump administration has yet to enforce them. Half of the combined production of 4.2 million barrels per day could be shut down if sanctions are enforced. Both countries export most of their production to China.

And US oil and gas companies see less drilling and completions going forward. Capex is expected to fall by 8% in 2026 compared to 2025.

- Rig count has fallen by 6% year-to-date, or 35 units, to 586, but their efficiency is slightly higher.
- Completion crews have fallen by 27%, or 66 units, to 241. A dramatic increase in their efficiency, however, actually increased production slightly.
- Drilled but uncompleted wells have dropped 24% overall year-to-date. In the oil-rich shale regions of the Permian, Bakken, and Eagle Ford, drilling and completion efficiencies are up, but US operators aren’t planning to rebuild DUCs to historical levels.

Finally, Guyana, Brazil, Argentina, and Canada could increase production collectively by about 400,000 barrels per day in 2026. But most oil and gas companies operating in the Americas are owned by large players who

won't be stupid about it. For example, ExxonMobil has dominant positions in the Permian Basin and Guyana where budget allocation and production can be toggled between domestic and foreign supply. Such hemispheric consolidation allows for a tighter rein on production to help mitigate lower oil prices. We think that 2026 production guidance will be purposefully less defined to accommodate geopolitics and OPEC increased quotas.

While we recognize that crude oil is currently bouncing off the lower end of our \$60 to \$80 price target for Brent, we don't see a collapse in crude oil prices. Refining capacity is a bottleneck. But demand is rising as the global economy just keeps refusing to fall into recession or convert overnight to electric vehicles. At prices where they are now, at the lower end of our target range, this is the time for the world to gradually build up inventories, both commercial and official, that have been at historic lows for the last three years.

Bottom line

For years the Western nations, especially Europe, have been reducing refining capacity in the wrong-headed expectation that electric vehicles would quickly proliferate. Despite subsidies, they have not. Now the subsidies are ending, and the electric vehicles of choice are extended-range models with onboard internal combustion generators. As a result, crack spreads have risen sharply, and US refining stocks have performed strongly this year against the backdrop of poor performance by the energy sector overall. Crude is well supplied, with OPEC raising production quotas and Russian supplies being shipped overseas while its own refineries are under attack by Ukraine. Global demand continues to increase, and it takes time to create new refinery capacity, even in the US where Trump's deregulatory efforts at least point in a constructive direction. With global demand growing and global inventories depleted, we reiterate our target price range for Brent of \$60 to \$80. ▶