Publication: Houston Chronicle; Date: Mar 17, 2016; Section: Business; Page: B1

JOINT VENTURE

Saudis, Shell to split Motiva

By Robert Grattan

Shell and Saudi Aramco announced Wednesday plans to break apart their Houston-based refining joint venture, Motiva Enterprises.

The divorce may end a 14-year-old partnership between two of the world's largest oil producers that has 1.1 million barrels of refining capacity and supplies gasoline to 8,300 Shell-branded stations. The split comes as cheap crude has both companies looking to streamline, and after Saudi Arabia considered selling shares in its national oil company to the public.

"The division of Motiva will also make it easier for Saudi Aramco to sell part of a wholly owned downstream asset in any future public offering instead of going through the long legality and pricing process with an international joint venture partner," Mohamed Ramady, a London-based independent analyst and former professor of economics at King Fahd University for Petroleum and Minerals in Dhahran, Saudi Arabia, told Bloomberg News.

Royal Dutch Shell and the Saudi Arabian Oil Co. said Wednesday in a joint news release that they signed a letter of intent outlining the split. Both said the deal had yet to be made final, and no schedule was offered.

Motiva's brand name, its flagship Port Arthur refinery — the largest in North America — and 26 distribution terminals will stay with the Saudis. Royal Dutch Shell will take two Louisiana refineries and nine terminals.

Saudi Aramco will have an exclusive license to the Shell brand at gas stations in Texas, most of the Mississippi Valley, the Southeast and the Mid-Atlantic region. Shell will own its brand in Florida, Louisiana and the Northeast.

A spokesman for Shell said the split was in line with the Dutch super-major's goal of simplifying its businesses. The company has previously said it plans to sell $30 billion in assets in coming years in addition to $20 billion in sales it made in 2015.

Motiva and Saudi Aramco didn't respond to requests for comment.

Not 'nimble'

While Wednesday's announcement came as a surprise, the marriage between the two companies had been strained for some time, said Tom Kloza, head of energy at consulting group Oil Price Information Services.

"It was not a very efficient organization up until a couple of years ago," Kloza said. "It was not regarded as nimble. Most 50-50 joint ventures on the downstream side have traditionally ended in divorce."

Motiva has already been making some changes to its operations.

Shortly after the arrival of Motiva's new CEO, Dan Romasko, in early January, Motiva began negotiating its own contracts for its gasoline and diesel products.

And in 2015, Motiva established its own trading staff for fuels such as gasoline and refinery intermediates. The company began trading its own fuels on Jan. 1, and the trading team will stay on with Saudi Aramco, a spokesman for Shell said.

Motiva was plagued by cost overruns and construction delays that eroded profits, Fadel Gheit, an Oppenheimer & Co. analyst, told Bloomberg.

The Port Arthur refinery suffered leaks and fires that delayed the $10 billion expansion that doubled its capacity to 600,000 barrels per day in 2012.

“These assets ranked probably in the bottom quartile of Shell’s portfolio, and they are going to be moved,” Gheit said.

Conflicts of interest?

In January, analysts at financial services firm Cowen and Co. estimated that between November 2013 and September 2015, the Port Arthur refinery followed other refineries on the Gulf Coast and cut its Saudi imports by 48 percent in favor of oil flowing from North American wells.

“We see this as a strong signal to the market of managed conflicts of interest between Aramco and Motiva,” Cow-en analysts said then.

Motiva, founded in 1998, has been run as a 50-50 joint venture between Shell and Saudi Aramco since 2002. robert.grattan@chron.com twitter.com/rpgrattan