Major Oil Refinery To Close

Danica Coto & Jason Bronis, AP

ST. CROIX, U.S. Virgin Islands — One of the world's largest oil refineries will close next month, the company announced Wednesday, stunning nearly 2,000 workers and threatening to upend the reeling economy of the U.S. Virgin Islands. Industry analysts said the closure is unlikely to have a major effect on the global oil market, but Governor John de Jongh described the loss of the territory's largest private employer as "a complete body blow" for the U.S. territory of about 108,000 people.

He said Hovensa generated a minimum of $60 million a year in revenue for the government, which recently laid of hundreds of public workers due to a budget crisis. "Given what we're going through right now, this is the last bit of news that I wanted to hear," he said in a teleconference with reporters. Losses at Hovensa, a joint venture of U.S.-based Hess Corp. and Venezuela's state-owned oil company, have totaled $1.3 billion over the past three years and were projected to continue due to reduced demand caused by the global economic slowdown and increased refining capacity in emerging markets, said Brian K. Lever, president and chief operating officer of Hovensa LLC.

"We deeply regret the closure of the Hovensa refinery and the impact on our dedicated people," Lever said in a statement. "We explored all available options to avoid this outcome, but severe financial losses left us with no other choice." Hess announced in New York that it will take a $525 million after-tax charge against its fourth-quarter 2011 earnings due to the shutdown.

The refinery employs about 1,200 people in St. Croix in addition to approximately 950 contractors, according to Hovensa spokesman David Roznowski. About 100 people, including contractors, will work at the oil storage terminal, the company said. The refinery, founded in the 1960s, has been producing about 350,000 barrels per day during the rough economic climate. It relies on oil for fuel while competitors on the U.S. mainland use less expensive natural gas. Hovensa was the third largest U.S. refinery before it cuts its capacity of 500,000 barrels by 30 percent last year. It is now the eighth largest, according to the U.S. Energy Information Administration.

The refinery dominates the southern coast of St. Croix, where hundreds of workers live in company-built neighborhoods. Speaking in hushed tones during a shift change at Hovensa on Wednesday, dozens of workers wondered where they would go after the refinery is converted to an oil storage terminal.

"This is all I know," said a worker who had been with the plant for more than 30 years. "I don't know what I am going to do now." Like others, he declined to be identified for fear of angering managers who will allocate the few remaining jobs. The company's website says it is still one of the 10 largest oil refineries in the world, but the closure is not expected to have a major effect on the oil industry because it had not been operating at full capacity, said Fadel Gheit, senior energy analyst for Oppenheimer & Co.

Hess benefits because it had been hemorrhaging money through the refinery, he said. The closure reflects a three-year trend across the U.S. of refineries closing because of the global financial crisis, a drop in gasoline consumption and a shift in growth elsewhere, Gheit said. "They cannot compete with the modern refineries being built in India, China and the Middle East," he said. Despite the closure, the U.S. remains Venezuela's largest customer, and Venezuela is still among the top four suppliers of crude oil to the U.S., he said.

Alejandra Leon, a Latin America oil analyst for Cambridge, Massachusetts-based IHS CERA, said that in 2010, PDVSA reported the Hovensa refinery processed 389,000 barrels a day, of which 227,000 barrels a day were supplied by Venezuela. She said it wasn't clear where the remainder came from. She said there is an excess of refining capacity globally, so Hovensa's closure "is helping to rebalance the market."

Hovensa spokesman Alex Moorehead said the refinery equipment will shut down by mid-February, but that the company will continue to provide fuel oil to the island's Water and Power Authority through end of June. Local Senator Terrence Nelson said the announcement "is a blow in the gut," and suggested the territory might need assistance from the federal government.

Nelson accused Hovensa of violating a long-term agreement with the government to continue refinery operations on the island. Nelson said it is unclear what Hovensa will need to do to compensate the government for breaching the agreement. "It's devastating," Senator Sammuel Sanes said. "It was something I suspected was going to happen, but of course it took me by surprise. On a personal level it affects many people in my family. I have many in my family working for Hovensa."

De Jongh said he called an emergency meeting to talk about ways to offset the economic damage. He warned that local fuel prices will likely rise while the government looks for other suppliers and said officials are asking the U.S. Environmental Protection Agency to ease sulfur content restrictions so they can quickly contract a new supplier. The Energy Information Administration reported last year that the refinery accounted for 85 percent of the territory's petroleum products.

De Jongh said he will also ask Hovensa officials if they are interested in selling the facility. "I cannot afford to have an asset of that size sitting there," he said. In January, Hovensa entered into a consent decree with the U.S. Environmental Protection Agency and Justice Department in which the company agreed to invest $700 million on pollution controls after a series of chemical releases affected people living downwind from the refinery. Hovensa also agreed to pay a $5.4 million penalty for violating the Clean Air Act. It is unclear how the agreement will be affected by the closure.

EPA spokeswoman Mary Mears said the agency and the U.S. Department of Justice are still talking with Hovensa officials about how the closure will affect the consent decree. She said the company already paid the penalty.

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