Gas Stations, Refineries Closing Due to Drop in Demand

TOKYO, Jan. 17 (Kyodo) — Declining demand for gasoline and other oil products as well as changes in the legal framework surrounding the oil industry may lead to closures of a growing number of gas stations as well as refineries in Japan in the months ahead.

By the end of January, gas stations that installed storage tanks 40 years ago or before are required under the revised Fire Service Law to either refurbish or replace them.

The measure is a costly requirement for those owners operating small stations and may inconvenience car owners if their neighborhood stations are forced to shut down, meaning a longer journey to fill up on gas.

A number of refineries, meanwhile, are closing under the impact of a law enforced in 2009 to boost their international competitiveness. The trend is generating concern about job losses and the effect on local economies, as well worries about maintaining a stable supply of fuel in the event of a disaster.

Demand for gasoline and other fuel oils has been on the decline due to the increasing availability of fuel-economy cars and declining vehicle ownership especially among young people.

According to the Petroleum Association of Japan, demand shrank to around 200 million kiloliters in fiscal 2011 from around 250 million kiloliters in fiscal 1999.

The Agency for Natural Resources and Energy, a branch of the Economy, Trade and Industry Ministry, said the number of gas stations dropped to around 38,000 on March 31, 2012, the end of fiscal 2011, from around 60,000 at the end of fiscal 1994.

The revised Fire Service Law, which took effect in February 2011, requires that underground tanks at gas stations 40 or more years old be refurbished with sensors to detect oil leaks and structural reinforcements or be replaced within two years.

Station owners risk losing their operating licenses if they fail to abide by the requirement.

The Fire and Disaster Management Agency said a total of 61 oil leaks and other accidents linked to obsolete underground tanks were reported in 2011. The agency has also been calling on station owners to take steps against corrosion.

Many stations own more than one tank -- one for gasoline, another for diesel, for instance. An industry official says the cost would be around 7.5 million yen to refurbish three tanks.

Apparently due to such high costs, renovations or replacements had been made for only around 30 percent of all tanks as of Sept. 30.

In a recent industry survey, 7.5 percent of around 500 station owners polled said they were planning to shut down because of the stricter tank regulations.

The remainder of the owners may undertake last-minute work using a central government subsidy program. Up to around two-thirds of the renovation costs may be subsidized if work is undertaken by the end of January under the government's initial plan. But the government has decided to offer aid for refurbishing those tanks reaching 40 years of age after Feb. 1 as well.

An industry official said many of those who own aged tanks are in advanced age operating small stations, and that some will probably consider giving up running their stations altogether.

Many stations also supply kerosene for heating. In cold regions, their closures would mean increased inconvenience for residents who are relying on them.

Meanwhile, wholesalers are paring their refinery and oil processing facilities amid falling gasoline sales. Japan's refinery capacity is projected to drop by around 10 percent by the end of March 2014 from around 4.48 million barrels at the end of October.

Under the 2009 law for enhancing their competitiveness, refinery operators have to opt either for trimming capacity by March 31, 2014 or for making capital investments to meet enhanced refinery standards.

Many refineries are paring capacity as making additional investments poses business risks at a time when fuel demand is slowing.

Cosmo Oil Co. has announced it will close its Sakaide refinery in Kagawa Prefecture in July this year. Idemitsu Kosan Co. said it will stop processing crude oil at its Tokuyama refinery in Yamaguchi Prefecture in March 2014.

JX Nippon Oil & Energy Corp., the country's largest oil wholesaler, said it is stopping crude oil processing at its Muroran refinery in Hokkaido at the end of March 2014.

Of the nation's 27 refineries, a majority are located in Pacific coastal regions. While the closure of a refinery has a major impact on the local economy, it may also pose a threat to fuel supplies in the country because their locations lack geographical diversity.

If a major earthquake strikes an area where a refinery is located, the facility may have to be suspended, necessitating delivery of fuel from distant locations.

In December, the city government of Muroran gathered around 200,000 signatures to urge JX Nippon Oil to keep running the refinery. Closure "would undermine kerosene supply and the backup function for energy supply in a disaster," a city official said.

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