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ABSTRACT

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Abstract

The purpose of this case study is to evaluate how to determine trading profitability in the oil industry. For this purpose answers to three questions are sought: what factors influence market attractiveness in commodities trading, how market demand can be estimated and what factors influence the profitability of trading operations. The case example is Neste Oil Oyj and the target market studied is the Polish market for Liquefied Petroleum Gases (LPG).

Trading companies act as intermediaries in international trade and often buy and sell products not manufactured by them. Goods may not pass by the physical possession of traders.

Market attractiveness is determined by economic, legal, regulatory and political conditions, competition and the structure of product usage. They form the market demand and influence prices which in turn impact trading profitability. Other downstream factors influencing trading profitability are export costs, contract conditions and success in hedging. A framework for analyzing trading profitability is built by combining existing theories. The framework will guide the empirical analysis of Polish LPG market and the profitability of export trading operations.

Information on the Polish market, possible contract conditions and export costs are gathered by a series of interviews inside the case company and correspondence with relevant external actors. Internal quantitative data as well as external statistics from a commercial source will also be used. Interviewees are chosen according to their function related to LPG trading and their role in the organization. Qualitative information will be gathered and analyzed by the themes presented in the framework constructed. Quantitative methods are used to estimate profitability by comparing average supply costs of the past with possible sales prices and freight costs. Data and calculations are double-checked to ensure reliability.

Poland has a favorable business environment and an attractive and apparently growing level of market demand for LPG. Product substitution can occur if present politics of lower taxes on LPG are changed. Competition is hard and the contract conditions reflect that with lower prices. There are only two probable clients for LPG exports by sea. Freight costs of chartering LPG vessels are presently high and difficult to estimate, making the profitability of trading operations very sensitive. However, profit could be made under certain circumstances, making trading LPG to Poland a viable option if the company has excess volumes to sell in the near future.

This study contributes to the limited academic material on trading of tangible products. The analytical framework presented could be used in further studies to test its applicability and in evaluating other trading operations.

Key words	Trading, LPG, Commodities, Oil, Petroleum, Export, Demand, Potential, Profitability, Shipping
Further information	