Par Pacific

Fourth Quarter 2021 Earnings

February 24, 2022 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Ashimi Patel – *Senior Manager, Investor Relations*

William Pate – *President and Chief Executive Officer*

Will Monteleone – *Executive Vice President and Chief Financial Officer*

Matt Vaughn – *Executive Vice President, Retail*

CONFERENCE CALL PARTICIPANTS

Carly Davenport – *Goldman Sachs Group, Inc., Research Division – Business Analyst*

Phil Gresh – *JP Morgan Chase & Co, Research Division – Senior Equity Research Analyst*

Matthew Blair – *Tudor, Pickering, Holt & Co. Securities, LLC, Research Division – Managing Director of Refining and Chemicals Research*

Jason Gabelman – *Cowen & Co. LLC, Research Division – Director and Integrated Oil, Refiners, and LNG Analyst*

PRESENTATION

Operator
Good morning, and welcome to the Par Pacific Fourth Quarter 2021 Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

I would now like to turn the conference over to Ashimi Patel, Senior Manager, Investor Relations. Please go ahead.

Ashimi Patel
Thank you, Gary. Welcome to Par Pacific's Fourth Quarter Earnings conference call. Joining me today are William Pate, President and Chief Executive Officer; Will Monteleone, Chief Financial Officer; and Matt Vaughn, EVP, Retail.

Before we begin, note that our comments today may include forward-looking statements. Any forward-looking statements are subject to change and are not guarantees of future performance or events. They are subject to risks and uncertainties and actual results may differ materially from these forward-looking statements. Accordingly, investors should not place undue reliance on forward-looking statements and we disclaim any obligation to update or revise them.

I refer you to our investor presentation on our website and our filings with the SEC for non-GAAP reconciliations and additional information.

I'll now turn the call over to our President and Chief Executive Officer, Bill Pate.

William Pate
Thank you, Ashimi, and good morning, everyone. We certainly live in interesting times.

Market conditions and refined product demand improved significantly in all our regions during the second half of 2021. Full year adjusted EBITDA was $61 million and adjusted net loss was $1.72 per share. These results include a $46 million non-cash mark-to-market expense for our 2019 and 2020 RFS compliance. Excluding this impact, Refining segment adjusted EBITDA improved by over $160 million last year.

Operationally, our teams performed well to close out the year. Wyoming production costs were $5.50 per barrel, as the refinery ran extremely well through the fourth quarter. Full year production costs came in at a record low $6.22 per barrel. Given winter demand, first quarter throughput is expected to be 15,000 to 16,000 barrels per day.

Hawaii production costs were $4.24 per barrel in the fourth quarter, and for the full year production costs averaged $3.98 per barrel. Maintenance costs were $7 million higher in 2021, as we caught up on deferred maintenance from 2020, and energy costs were also a significant factor during the second half of the year. Higher oil prices increased utilities expense by over $0.30 per barrel compared to the first half of 2021. First quarter throughput is expected to increase to 82,000 to 85,000 barrels per day as we work to meet rising demand in Hawaii.

Tacoma production costs were $4.30 per barrel, up from third quarter production costs of $3.60 per barrel,

due to end-of-run conditions and related throughput shortfalls. Despite significant flooding, and a freeze in the Pacific Northwest that caused widespread outages, our Tacoma refinery continued to receive crude shipments and operated throughout December. We began a major turnaround at Tacoma during early January, and we expect to restart our refinery generally as planned in the next week. This turnaround caps an 18-month period during which all our refineries completed major turnarounds. We have no significant planned downtime for at least the next two years. First quarter Tacoma throughput is expected to be 22,000 to 23,000 barrels per day, including the turnaround impact. In conjunction with the current outage, we're completing debottlenecking projects which should allow us to increase our maximum throughput to 42,000 barrels per day and increase our heavy crude consumption capability by 15%.

While the depths of the pandemic made 2020 a very difficult year, this year has been characterized by a choppy return to profitability. Third quarter results were strong, but our recovery was partially set back in the fourth quarter as the Omicron surge impacted demand, and rising crude oil prices and differentials adversely affected our gross margin. However, forward cracks in 2022 are strong, demand is increasing, inventories are low and many refineries have been closed.

In addition, high natural gas prices hamper the competitiveness of many European and Asian refiners. Singapore cracks and Asian inventory levels have improved, reflecting recent Chinese tax and policy reforms that discourage low quality blending operations and limit product exports. These factors are somewhat offset by the continued rise in crude oil prices and differentials, and market backwardation, all of which are heightened by the current European crisis.

Looking to 2022, our near-term objectives are twofold. First, we're concentrated on improvements to our existing operations. We've identified $10 million in growth capital to debottleneck units, improve our yield and expand our retail store base. Second, we are refocusing our efforts to grow our footprint. We remain anchored on supplying isolated local markets, like Hawaii and Wyoming, and we see plenty of opportunities to build on that strategy.

We're also focused on energy transition opportunities within our communities. Several of these efforts are higher risk and in early stages, such as carbon capture projects in Hawaii, and a Tacoma hydrogen electrolyzer project that we're pursuing with local partners. Other opportunities are quickly actionable. We're pursuing small co-feeding opportunities and a unit conversion project for renewable diesel at our existing locations. Co-feeding has the added benefit of fully balancing our RIN position. With under 2,500 barrels per day, we could generate enough RINs through blending and production to fully offset our current annual renewable volume obligation.

In closing, I'd like to introduce Matt Vaughn, who's taken responsibility of our Retail segment as our new Executive Vice President of Retail. I'll turn the call over to Matt to discuss those segment results and recent strategic initiatives.

Matt Vaughn
Thank you, Bill. While COVID-19 continues to present challenges to the Retail segment, we grew our margins inside the store last year while dealing with several product and inflationary challenges. The Retail segment reported adjusted EBITDA of $47.1 million for the full year 2021 compared to $64.7 million in 2020.

Fuel volumes increased by 6% over the prior year but they remained 13% below 2019. We do not expect fuel volumes to rebound until international travel returns to Hawaii. Fuel margins were tempered by rising operating costs the entire industry is incurring in terms of increased fuel costs, labor and higher credit card fees.

Merchandise revenue increased by 2% compared to each of 2020 and 2019. Packaged beverages and edible grocery products continued to perform well. Merchandise sales have been impacted by labor shortages, forcing temporary store closures for periods of time. We have instituted hiring retention initiatives including bonuses and other offers, as well as increased recruitment capacity.

Supply chain issues have persisted across the segment due to shortages of warehouse workers and truck drivers. This has resulted in shelf vacancies for several of our product offerings, challenging our prepared foods category. Our Retail team has taken steps to address these issues by sourcing alternative products and working closely with our partners to find solutions.

Last year, we successfully completed rebranding our stores in the Pacific Northwest to our proprietary nomnom brand. We're working to expand our brand in that area, including reaching the agreement in principle to construct a new store in the greater Spokane, Washington area. There are several other sites in the region we are evaluating that are attractive for new-to-industry developments. We believe new sites provide substantially greater store contributions than older smaller retail locations.

Looking ahead, we're continuing to explore and roll out a variety of frictionless checkout innovations, including self-checkout options in various of our stores. We are currently in the process of implementing localized pricing at our fuel stations in Northwest Retail, as well as expanding our prepared food offerings generally across the system. We're also exploring other initiatives to increase our merchandise revenue across the network.

I'll now turn the call over to Will to address the financials.

Will Monteleone
Thank you, Matt. Fourth quarter adjusted EBITDA and adjusted earnings were $27 million and a loss of $13 million or $0.22 per fully diluted share.

Focusing on accounting items first, Refining results include a $1 million non-cash mark-to-market loss related to the 2019 and 2020 RFS compliance years. Excluding the mark-to-market RINs expense, our adjusted EBITDA and adjusted earnings per share was $28 million and a loss of $0.20 per share respectively.

Shifting to segment results, the Logistics segment adjusted EBITDA contribution was $19 million, consistent with last quarter. Steady volumes kept our Logistics assets well utilized during the quarter.

Excluding the RIN mark-to-market impacts, Refining segment adjusted EBITDA was $10 million compared to $35 million in the third quarter. Focusing on Hawaii first, the fourth quarter Singapore 3-1-2 Index increased approximately $4.30 per barrel to $10.49. Feedstock costs were approximately $2.66 premium to ICE Brent compared to the initially provided estimate of $2.88. Putting the 3-1-2 and the feedstock indexes together, the overall margin environment improved about $3.90 per barrel versus the third quarter.

The third quarter was a strong performance for the Hawaii adjusted gross margin relative to market conditions, so a difficult comparison. However, a few items to call out that impacted our adjusted gross margin during the fourth quarter versus the third quarter: 1), approximately $8 million crack spread hedging loss or about $1 per barrel; 2), approximately $0.50 per barrel impact of price lag; 3), approximately $0.50 per barrel impact related to increased backwardation; and 4), increased ethanol blending costs of about $0.10 per barrel. Collectively, these reduced our capture by approximately $2 per barrel.

I'd like to take a few minutes to discuss the rationale of our product crack hedging framework. The length of Hawaii's supply chain requires forward crude commitments up to three months ahead of physical crude arrival. Once we commit to a crude cargo, we typically lock the crude differential to the month of delivery. Depending on the level of the crude differential, we lock a percentage of our product cracks to protect the differential relationship to our product margin. During the fourth quarter, we were approximately 25% hedged on our Hawaii sales portfolio, and this drove the approximate $8 million loss. Looking forward, we continue to follow a similar framework as we purchase crude. Our current first quarter crack hedge portfolio is about 20% of our anticipated sales, with a current mark-to-market loss of approximately $5 million.

There are many medium- and longer-term positives emerging in the Hawaii business as margins recover. Looking forward, market conditions continue to improve with the 3-1-2 averaging $11.42 per barrel in January. More promptly we have seen weekly levels in excess of $14 per barrel in response to heightened geopolitical concerns. We anticipate landed crude differentials will be between $3.40 and $3.60 per barrel during the first quarter, reflecting increasing backwardation.

Much like our comments last quarter, our utility sales price contracts are priced on a prior month average. And thus in rapidly rising price environments, it takes a month to pass through these higher costs. Assuming ICE Brent stabilizes at the February calendar month average levels of approximately $94 per barrel, we expect a price lag impact of between $20 million to $25 million during the first quarter. If the price declines back to prior levels, we expect to recover the majority of this impact in subsequent periods. While noisy in volatile periods, I do not believe it reflects the core profits of our manufacturing operation.

Separately, backwardation continues to steepen in the crude oil market, and this factor impacts us in two ways. 1), it increases our landed crude differentials as reported in our landed feedstock differentials versus ICE Brent, and 2) it increases our cost of protecting inventory from future declines in flat price. Since the second half of 2021, we have experienced increased backwardation costs, which has negatively impacted our capture. The month one versus month two ICE Brent contract spread is a good proxy for such costs. In response to this elevated backwardation, we are reducing our inventory levels.

The Washington market environment was down slightly compared to the third quarter. Major moving pieces compared to the third quarter were materially more expensive ethanol, which we struggled to pass through to our customers; and asphalt margin compression due to increases in flat price. Like Hawaii, Washington has faced elevated backwardation. During the second half of 2021, backwardation costs increased approximately $2 per barrel versus the first half of 2021. Looking forward, the January PNW 5-2-2-1 Index increased by approximately $4 per barrel to $20.35 as several of our northern refinery peers navigated operational challenges due to freezing conditions. Most of our peers are back up and running and the weekly prompt 5-2-2-1 has softened to the $17 range.

Wyoming market conditions followed their typical seasonal decline from the third quarter to the fourth quarter, with the Wyoming 3-2-1 declining to $23.67 per barrel from a record high of $41.78 during the third quarter.

Ethanol costs were up markedly and reduced adjusted gross margins by approximately $1 per barrel versus the third quarter. The estimated FIFO benefit was $1.4 million. If current flat prices hold with WTI around $92 per barrel, we expect a FIFO benefit of between $9 million to $13 million, depending on final sales and pricing. This partially offsets the Hawaii price-lag comments from prior sections.

Shifting to Laramie, Laramie generated hedged adjusted EBITDAX of $25 million, unhedged adjusted EBITDAX of $33 million, and net income of $34 million for the fourth quarter of 2021. During 2021, Laramie generated hedged adjusted EBITDAX of $121 million, unhedged adjusted EBITDAX of $132

million, and net income of $32 million. Excluding the hedge mark-to-market impacts, Laramie's net income was approximately $65 million for 2021. Full year capital expenditures totaled approximately $1 million. During the quarter Laramie's net debt improved by $23 million from $116 million to $92 million. For the full year, Laramie's net debt position improved by nearly $87 million. Laramie exit production as of December 31st was 111 million cubic feet a day equivalent. Laramie is receiving spot market pricing on between 20% to 30% of their production over the next 12 months. In addition, Laramie is commencing a small development program for approximately seven wells totaling $11 million. This flush production should come online during the fourth quarter of 2022. Additional hedges were added at the roughly 80% level, locking in attractive returns.

Shifting back to the Par Pacific cash flow statement, Par Pacific's fourth quarter cash flow from operations was an outflow of $85 million. Working capital outflows totaled $113 million. As previously messaged, there is an approximately $23 million outflow related to net 2021 RIN settlements. In addition, hydrocarbon funding, net of intermediations, increased $43 million, largely driven by Tacoma train delays and prompt feedstock purchases at the end of the year. A number of these items have either already reversed back to normal levels, or we expect they will by the end of the first half of 2022.

For the full year, cash from operations was a use of $28 million. Working capital outflows were a major driver of the lower cash flow from operations number. Capital expenditures and turnaround outlays were $12 million for the fourth quarter and approximately $39 million for the full year, consistent with our prior estimates. Accrued cash interest equaled $15 million and $61 million for the fourth quarter and 2021, respectively.

In addition, during the fourth quarter, we repurchased approximately $1 million of stock at a weighted average price below $14. So far during the first quarter, we have repurchased another $5 million of stock as well.

Our net liability for the 2019 and 2020 RFS compliance years total $114 million based upon a weighted average RIN price of $1.37 at 12/31. We anticipate ratably procuring our 2022 RIN requirements. However, the cash flows and timing are likely to be lumpy like they were in 2021. Our quarter end liquidity totaled $179 million, made up of $112 million in cash and $67 million in availability. As previously referenced, we had a number of temporary funding requirements at year end that have subsequently reversed or we expect to reverse during the first half of 2022. Our liquidity on hand remains strong and provides flexibility to consider alternatives to reduce our funding costs.

This concludes our prepared remarks. Operator, I'll turn it back to you for Q&A.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question is from Carly Davenport with Goldman Sachs. Please go ahead.

Carly Davenport
Hi, good morning, team. Thanks for taking the questions. I just wanted to start on your comments around the share buybacks. We know you've got the NICB in place and have started to execute there. So just wanted to get your thoughts on potential trajectory of executing on that program throughout the year and

if there any other options that you're looking at to address some of the valuation dislocation that we've seen over the last few months.

Will Monteleone
Hi, Carly, good morning. It's Will. I think with respect to the share repurchases, I think we're going to continue to be opportunistic and sensitive with respect to when we enter the market. And again, I think the program that we put in place, again, was really to address activities that we may undertake while we're in a blackout period.

With respect to closing future valuation gap items, again, I think driving core business performance across each of our key segments, I think, is a critical aspect of really pulling forward free cash flow and improving our overall capital structure.

I'll also turn it over to Bill for any additional comments he'd like to make.

William Pate
No, Will, I think you hit the nail on the head. The key thing is we have to get back to profitability. Market conditions are good. Our team actually had a very strong year operationally last year. If we execute this year the way we did last year, and we have the permissive market conditions, I expect we'll be generating significant cash flow and that will give us options in a number of different areas. But I think as we return to profitability, we also have to refocus our efforts on growth.

Carly Davenport
Great, thanks for that color. And then, going off of that, just around broader capital allocation, there have been a number of reported assets on the market in a few niche markets in the US from a refining perspective. So just curious to get your temperature around what you're seeing in the M&A environment, particularly in the refining space, or perhaps even retail and where you'd rank that piece in terms of your capital allocation priorities.

William Pate
Well, I think, as we've said, our first priority always has been reducing our cost of capital. But I also believe that with the levels of debt that we have right now we can start to think about growth. And I think we've been very clear about the areas that are of strategic interest to us and in PADD 4, the Rockies, the Pacific Basin, there are circumstances where I think there are existing operations that are a very good fit with our current portfolio. And we'll continue to evaluate those opportunities, also taking into account our limited access to capital.

Carly Davenport
Appreciate that color. Thank you.

Operator
The next question is from Phil Gresh with JP Morgan. Please go ahead.

Phil Gresh
Yes, good morning. My first question would just be around Hawaii. Obviously, Will, you talked about a lot of different moving pieces here, especially in the first quarter. But if we step back and think about where the crack spreads are, the differentials, the backwardation, just in general, how do you think about longer-term levels of potential EBITDA that you think you could generate there? Just any color, just how you think about the framework for Hawaii.

William Pate

This is Bill, let me start, and I'm going to turn it over to Will to get into some of the capture issues. But I would just say generally, our team has made a lot of progress in repositioning Hawaii over the last few years. And if you think about where our breakeven is today versus where it was circa 2017, 2018, it's changed materially. It's changed because the market is in balance, and it's changed because we're still the best supplier, the low cost and highest quality supplier of fuels to a market that is in dire need of our product.

I am personally also just—I believe that the change in the Asian marketplace has benefited us with the Chinese reforms that I mentioned, and just generally, a more balanced market in Singapore and the rest of Asia. All of that augers well for our position in the market going forward.

Will, do you want to cover the capture issues?

Will Monteleone
Sure. I think, Phil, quarter-to-quarter is going to continue to be noisy when you think about the complexities around Hawaii. But I think if you look at it annually, which I think is probably the best time horizon, and you compare 2021 versus let's say 2018, you can see that our adjusted gross margin per barrel compared to the market index minus our provided feedstock costs has improved by nearly $4 per barrel. That's $120 to $140 million annual improvement of capture when you think about it annually. And so again, I think that's really to quantify some of Bill's comments with respect to the repositioning. I think it's important to keep that in mind.

And then I do think with a higher crude price environment, like we're currently in, we're probably facing an additional $0.30 to $0.40 per barrel of higher operating cost, your indirect costs that flow through opex plus our yield. So, again, I think that's probably the major adjustment that we would suggest in a higher crude price environment to some of the breakeven math that we've provided in prior quarters.

But otherwise, I think the contract improvements and where the business is heading there, still is consistent with our prior thought process, and notwithstanding the quarter-to-quarter volatility that we're going to see around rapid changes in flat price, etc.

Phil Gresh
Got it. That's very helpful. Thank you. And then, obviously, you said you've started the buyback here. But how do you more broadly think about target balance sheet leverage and where you want to get to and whether you think the de-leveraging is just to be at higher EBITDA or do you actually want to pay down some debt?

Will Monteleone
Sure. So I think, Phil, we're more comfortable at this point with the gross amount of debt that we're carrying, given our current outlook. And I think we'll continue to be optimistic on our share repurchases. I think really our main objective on the capital structure is to reduce our cost of capital so we can competitively resume our growth objectives. And so, again, I think while our RINs do remain a contingency, we're going to carry some excess liquidity. And again, we're going to also separately be considering some measures to simplify our working capital financing.

So those are some of our broader thoughts on capital allocation at the moment, and I don't think gross debt pay down is necessarily as high of a priority as it had been in prior periods given the improvement in outlook.

Phil Gresh
Right. And with respect to working capital, how much would you expect to reverse from what we saw in

the fourth quarter?

Will Monteleone
Yes, I think it's a dangerous game to forecast with moving prices like we're seeing at this juncture. But, again, I think, the intermediations that we have should provide, ultimately, mechanisms for us to catch up again. So I think a decent chunk of that $40 million that we've called out is probably a good target to think about. And then I think the other parts are going to move based on flat price and volumes.

So again, I think we do need to carry some liquidity cushion to deal with these type of movements.

Phil Gresh
Great. Thank you.

Operator
Again, if you have a question, please press star then one.

The next question is from Matthew Blair with Tudor, Pickering, Holt. Please go ahead.

Matthew Blair
Hi, good morning, everyone.

William Pate
Good morning.

Matthew Blair
I wanted to follow up on the co-feed opportunity and see if you could provide any additional incremental details here. Which plants did you think about doing this at? Any preliminary cost estimates? Any timing we should think about? And then on the feedstocks, would this be vegetable oils? Or do you think you could run low-CI feeds?

And then finally, I just wanted to confirm I don't believe that you would get a BTC with a co-feed process. And so if you could just talk about how you think about the economics without that $1 BTC. Thanks.

William Pate
Sure. And, I think to be clear, when we think about co-feed, we're really thinking about an emerging LCFS standard in Washington. So we're targeting renewable diesel to enter that market given our commercial position in the market. There's an opportunity for us. Given the lack of commercial position in other markets with LCFS, I think it's a little harder for a new entrant. But the co-feeding is a low capital solution; it's small. The opportunity in Washington, for example is less than 1,000 barrels a day, but it's also less than a couple million dollars to essentially make modifications to our catalysts in a hydro treater.

So it's low cost; there's a lot of flexibility. We can shift towards fossil fuel hydrocarbons, away from plant-based hydrocarbons if we want. And to your point, it really depends on processed RBD SBO. So the CI issues will be significant as well.

As to the BTC, still up in the air in terms of the treatment for co-feeding. We certainly won't get a full BTC but there are opportunities to get a portion of that BTC for co-feeding. I think one of our focuses is just balancing the market given the volatility of RINs and uncertainty over how the EPA is going to address RINs going forward and ensuring that we've got that flexibility.

Matthew Blair

Great, it sounds good. And then it looks like Hawaii air travel has really picked up in the past month. Passenger counts are back actually to 2019 levels. And I was just hoping you could comment on whether this is coming through in your system and in jet demand in your Hawaii refinery.

William Pate
I think one of the issues that is evident in our throughput in the fourth quarter was the fact that we did hit an air pocket where air travel did decline and it was largely related to Omicron. Our hope, and from talking to our local managers as well as some of our customers, is that as spring picks up, you're going to start to see some international travel. The key one really would be when Japan relaxes standards for quarantining for returning travelers. But we are starting to see as Omicron abates, an increase. And that's why we're focused on increasing our throughput in Hawaii. We scaled it back a little bit, because we found that some of the nominations in November and December, our customers didn't come through with those as they started to cut back on flights. And now we're starting to see that ramp up again.

So, again, very happy with where Hawaii is. And I think there's opportunities. We can see significant profitability—or positioning ourselves for significant profitability in that market, as the market fully returns.

Matthew Blair
Got it. And then one final clarification, when you said that at Washington you can raise the WCS feed by 15%, we normally think of that plant as roughly two-thirds Bakken, one-third WCS. So would it be roughly like 50-50 after the turnaround is complete?

William Pate
No, it's 15% of the one-third. I think it's probably 1,500 to 2,000 barrels that we're talking about of increased—

Matthew Blair
Got it. Okay, thank you very much.

William Pate
Thank you.

Operator
The next question is from Jason Gabelman with Cowen. Please go ahead.

Jason Gabelman
Good morning. Thanks for taking my questions. First, just a clarification on Hawaii opex. You mentioned $0.30 to $0.40 higher because the higher oil prices. Is $4 a barrel, then, the right number for opex moving forward, or is it a different number? Any other color there.

And then secondly—yes, I'll let you answer and then I'll ask my next one.

William Pate
Yes, what I was going to say, I think that's a pretty good target. The one thing I'd keep in mind is we're very focused on increasing our throughput. We think there are opportunities to increase our throughput. And if we're successful in that effort, that will actually help to bring us down. I think, at the current throughput levels $4 is a pretty good number. We came in roughly at that number for the year. Even with high prices, though, if we get our throughput up, I think we can get back down below $4.

Jason Gabelman
What's the throughput target at the plant?

William Pate
I think I mentioned in Q1, we're at 82 to 85 (thousand), and we'd hope through the year we can get above that number. That's one of the key opportunities for our organization and our team in Hawaii this year.

Jason Gabelman
Great. And then the second one, just on the broader Asian crack trends. I know you mentioned the China tax regime supporting the market there. Could you just provide a bit more detail on that? Is it just lower product exports out of China or are there other things at play? And connected to that, we've seen global gas prices remain high, and it seems like that's also supportive of global cracks. Is that another factor supporting the Asian refining market and any other factors at play as we think through the dynamics there?

William Pate
Yes, this is Bill, let me start and I'll let Will jump in. Certainly high natural gas prices are a factor globally and it does affect the Asian market. There are some Asian refineries that are actually relying on natural gas, especially on the mainland.

The Chinese tax reforms, I think it probably had the biggest impact because once the Chinese started to bring higher complexity refineries on that really are focused on their petrochemical sector, it allowed them to back out of the market some imported intermediates that were used with simpler refineries, that were then blending these feedstocks in to produce lower quality gasoline and lower quality diesel. So LCO that was coming in from Korea, for example, started to get taxed. And I think it was a conscious decision on the part of the government as they had these more complex refineries coming up to improve both the quality and the conversion rate of their crude.

And I think at the same time, the government's also signaled that exports of refined product is not something they want to be engaged in going forward. And they've even talked about capping the refining capacity in the market, largely to focus on meeting domestic demand as opposed to being an exporter of crude oil and related products. And I think all of that has both had an impact on actual exports in the last six to nine months, which has affected Singapore inventories, which are historically at lower levels, and also signals going forward that the Chinese policy is focused on a more balanced production, and supply and demand profile within the market.

Will, I don't know if you want to add anything to that.

Will Monteleone
No. I think it's well covered.

Jason Gabelman
Great. That was very helpful. Thanks.

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to William Pate for any closing remarks.

William Pate
Thank you, operator. I want to thank everybody for joining us today and I want to thank and congratulate our team on an excellent year operationally last year. We look forward to a profitable year in 2022 as a

more favorable market for our products continues to emerge. Have a good day.

Operator
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.