Russia's fuel blockade

is a step to destabilize the situation in Ukraine

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OFFICIALLY

On April 18, 2019, it was reported that the government of Russia will limit the exports of fuel and energy products to Ukraine, including coal, oil and petroleum products, from June 1, 2019.

According to the resolution signed by the head of the Russian government Dmitry Medvedev, the list of goods banned for exports from the Russian Federation to Ukraine included: crude petroleum and oils obtained from bituminous minerals, petroleum jelly; mineral waxes, petroleum coke, oil bitumen, bituminous mixtures, petroleum bitumen, mineral tar or pitch from mineral tars (e.g., bituminous mastics, asphalt mixtures for road pavement).

Under the special permit issued by the Russian Ministry of Economic Development, petroleum, gasoline, diesel, propane, butane, and other liquefied gases can be exported to the territory of Ukraine.

According to the State Fiscal Service of Ukraine, in the first quarter of 2019, imports of petroleum products amounted to 1,109 million USD – by 12% more than in the same period last year. Imports from Russia in monetary terms amounted to 460 million USD (41.5%), from Belarus – 413.5 million USD (37.2%), from Lithuania – 117.6 million USD (10.6%). Attention shall be paid to the growing crisis in the relations between Russia and Belarus: in response to trade restrictions, Belarus closed for maintenance the Druzhba pipeline, which is used by Russia for oil supplies to Western countries. The reaction to such actions is likely to be a limitation of oil supplies to refineries in Belarus.

Creating artificial shortages of fuel by Russia is aimed at destabilizing the situation and strengthening political and economic pressure on Ukraine

As a result of the expansion of Russian sanctions, a temporary shortage of petroleum products supply may occur in Ukraine – by 41.5% in the baseline scenario (without restrictions on supplies from Belarus) or by 78.7% in the negative scenario (continued trade war between Russia and Belarus). According to experts of the Energy Reforms coalition, in 2018 the ratio of domestic production and imports in the total balance of petroleum products in Ukraine amounted to 43% and 57% for motor petroleum, 11% and 89% for diesel fuel, 24% and 76% for LPG.

We expect the Ukrainian traders to focus on oil and petroleum products deliveries from the EU countries, Azerbaijan and other exporting countries. At the same time, the cost of these petroleum products is higher, and secondly, immediate deliveries are also much more expensive than those under forward contracts. It is possible that the Russian side will use the situation not only to destabilize the Ukrainian economy, but also to promote "friendly" business groups on the fuel market – by granting them or affiliated importers separate permits for importing fuel to Ukraine.

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In order to avoid rising oil prices as a result of possible drop in supplies from the Russian Federation, it is now necessary to implement the measures proposed by experts of the Energy Reforms coalition, which include real diversification of supplies, increase of imports from the European direction, incentives for operators signing medium-term and long-term contracts, in particular lending on acceptable terms, forming an insurance reserve for motor fuel of all market operators, and creation and maintenance of minimum reserves of oil and petroleum products.

Concerning the creation of the minimum reserves of oil and petroleum products, DiXi Group experts and the Energy Reforms coalition discussed this issue at the round table on April 5, 2019, in the context of implementing Directive 2009/119/EC under the Association Agreement. It is not a secret that the deadlines in the implementation plan for the Directive have been constantly postponed, and only the draft resolutions of the Cabinet of Minister "On Approval of the Model of Minimum Reserves of Oil and Petroleum Products Formation and its Financing in Ukraine" and the draft Law "On Minimum Reserves of Oil and Petroleum Products" have been developed. From October 25, 2017, the implementation of Directive 2009/119/EC in Ukraine is carried out according to the relevant action plan, but the implementation of these tasks may take much more time than defined.

According to preliminary estimates, crude oil reserves can be stored at reservoir parks of Ukrtransnafta (0.40 million cubic meters available), gasoline and diesel fuel – use the capacity of the State Reserve Agency facilities (0.11 and 0.53 million cubic meters, respectively) and business entities (e.g., one of the retail networks – 0.08 and 0.12 million cubic meters, respectively). Since there are less than 45% of the capacity required (1.24 of 2.87 million cubic meters), it is necessary to modernize the existing (0.62 million cubic meters) and build new reservoirs (1.00 million cubic meters).

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