PETROMARKET RESEARCH CROUP

RUSSIAN FUEL MARKET

№15 | 16.04.2019

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Refining margins continue to decline in Russia

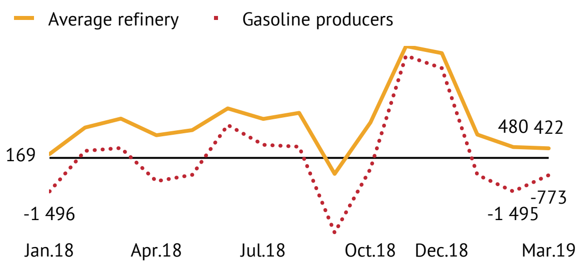
According to preliminary estimates made by Petromarket Research Group, the average net margin of Russian refineries in March amounted to 420 roubles/t – 60 roubles/t lower than the adjusted February value for this indicator. The refinery margins have therefore fallen for the fourth month in a row. ▶

The differences in refinery margins of the various oil refineries groupings remained almost the same as they were in February. Companies operating at a loss continue to represent the most significant category from the point of view of meeting the domestic market demand for motor fuel, i.e. refineries focused on the production and supply of gasoline to the domestic market (Angarsk Petrochemical Company, Achinsk Refinery, Samara Group of Refineries, Moscow Refinery, LUKOIL Nizhny Novgorod Refinery, Ryazan Refinery, TAIF NK, Ufa Group of Refineries, LUKOIL Ukhta Refinery and YANOS). At the same time, “exporters” (refineries orientated to the export of petroleum products) and “taxation optimizers” (refineries that have found ways to remove their products from excise taxes on the domestic market and/or to transfer them to product groups with a lower export duty), whose importance to the domestic market is not as obvious as it was in February, continue to generate profits. ▶

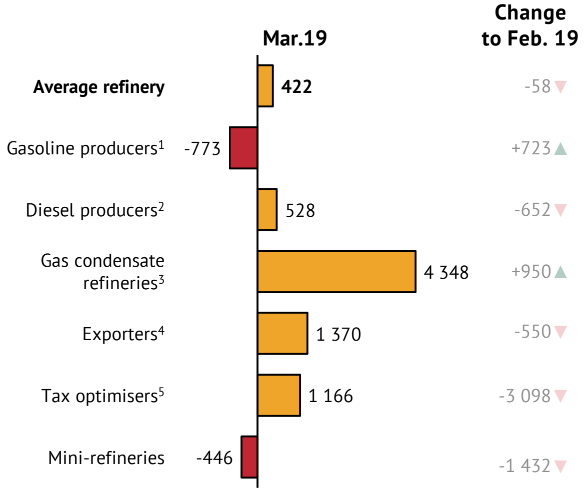
It should be noted, however, that in March, the average net margins for refineries producing gasoline – although remaining in the negative zone – increased to minus 800 roubles/t from the figure of minus 1 500 roubles/t recorded in February. The increase was mainly brought about by the transition of the damping allowance for gasoline from the negative zone to the positive, i.e. from minus 1 800 roubles /t in February to plus 3 600 roubles/t in March. ▼

Whilst transition of the gasoline “damper” to a positive value helped improve the economic position of the refineries, it could not fully compensate for the losses

▶ *Average net refining margins in Russia, roubles/t*



▶ *Average net refining margins in the various groups of refineries, roubles/t*



1. Angarsk Petrochemical Company, Achinsk Refinery, Samara Group of Refineries, Moscow Refinery, LUKOIL Nizhny Novgorod Refinery, Ryazan Refinery, TAIF-NK, Ufa Group of Refineries, LUKOIL Ukhta Refinery, YANOS.

2. LUKOIL Volgograd Refinery, Omsk Refinery, LUKOIL Perm Refinery, TANECO, Khabarovsk Refinery.

3. Astrakhan Gas Processing Plant,, Gazprom neftekhim Salavat, Surgut Condensate Stabilization Plant, Urengoygazprom, NOVATEK-Ust-Luga.

4. Ilsk Refinery, KINEF, Komsomolsk Refinery, Krasnodarekoneft, Nizhnevartovsk NPO, Orsknefteorgsintez, Saratov Refinery, Tuapse Refinery, Yaysky Refinery.

5. Afipsky Refinery, Antipinsky Refinery, Mari Refinery, Novoshakhtinsk Refinery, Slavyansk ECO.

incurred in selling gasoline on the domestic market, due to forced discounting of prices in comparison to export netbacks (the reason for the discount is the restriction on gasoline exports imposed by the regulator, which is creating a surplus of the product domestically).

Refinery profitability from gasoline production is not able to reverse the change to the formula for calculating damping allowance, which is currently under discussion. Under the conditions prevailing in March, even the best (from a refining point of view) reform variants under review (lowering the base price for gasoline from 56 000 to 51 000 roubles/t, zeroing the Φ_{gas} compensation premium and increasing the K_{comp} compensation coefficient from 0.6 to 0.75) would only increase the average net processing margin of this group of plants by 220 roubles/t, whilst retaining its negativity. ▶

It is not surprising that the chronic unprofitability of gasoline sales on the domestic market is forcing refineries to look for ways of reducing losses. Together with the observed transition of some refineries to the production of naphtha instead of gasoline (see Russian Fuel Market No. 10), in January – March 2019, a number of plants – Omsk, LUKOIL Perm and TANECO – began to resort to the manufacture of the mixing components alkylate and reformate, and exporting these rather than continuing with gasoline production. In January – March, these same plants supplied in total some 126 thousand tons of gasoline components to foreign markets. To put that figure into perspective: in the first quarter of last year, only the Omsk refinery was producing gasoline components (alkylate) for export, and then only in volumes of around 3.5 thousand tons.

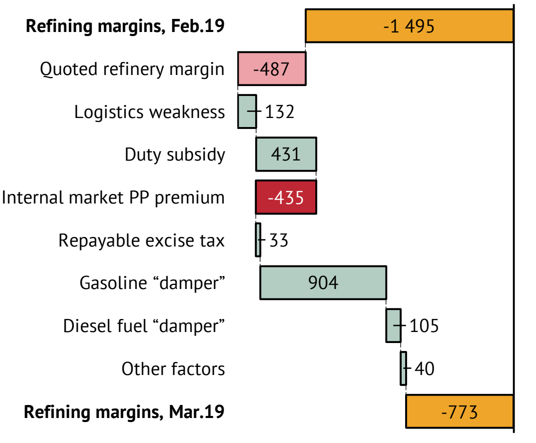
The plan seems reasonable: it is without doubt better to manufacture marketable components of gasoline – naphtha, alkylate or reformate – and sell these abroad at high prices, than to mix them at the refinery and sell them as gasoline on the domestic market at low prices. ■

April gasoline "damper" may increase two-fold, but will not solve gasoline refinery problems

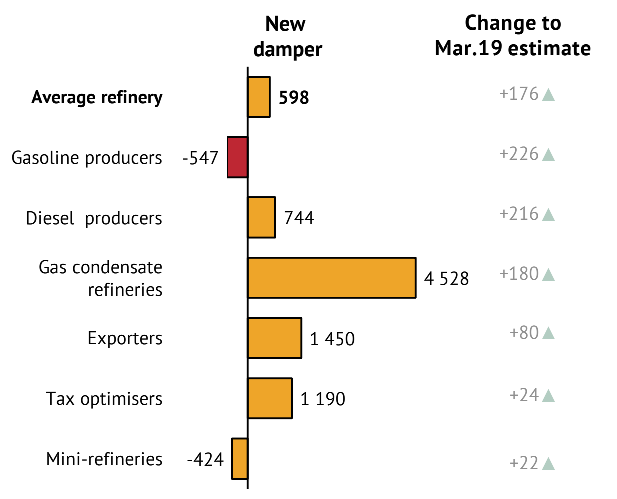
In the first half of April, there was a sharp rise (from 118 to 150 dollars/t) in the crack spread for AI-92 gasoline on the Northwestern Europe spot market. The average value of the indicator during the first 15 days of April reached 138 dollars/t. If we assume that by the end of the month the price of AI-92 in Northwestern Europe and the dollar exchange rate will both remain at the same level as their average values for the first 15 days of the month, then the April indicative export price will be 6 630 roubles/t higher than in March (from 56 520 to 63 150 roubles/t). And this will trigger a more than two-fold increase in the gasoline damping allowance – to 7 650 roubles/t.

But even such a significant increase in the gasoline "damper" will not solve the problem of the unprofitable supply of gasoline supplies to the domestic market. As

▶ *Factor decomposition of changes in the average net refining margins at gasoline-producing refineries, roubles/t*

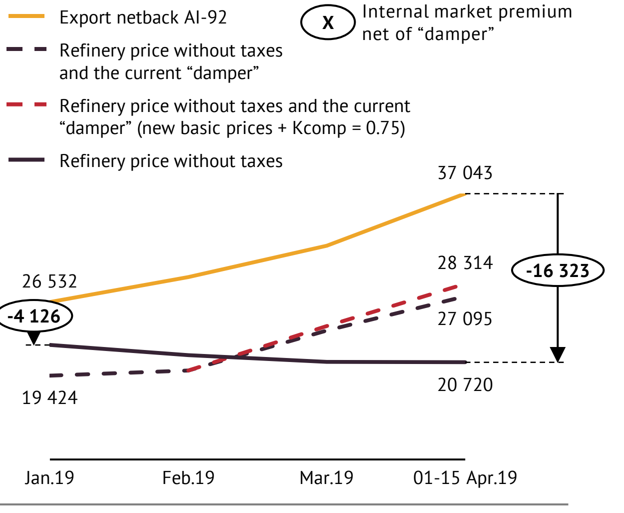


▶ *Average net refining margins of various refinery groups* in March 2019, gasoline "damper" adjustment included, roubles/t*



*Refinery group composition is shown on Page 1

▶ *Average refinery prices in Russia and export netbacks on AI-92, roubles/t*



already mentioned above, due to the restrictions on the export of gasoline, the product is now being traded on the domestic market with a huge discount relative to the export alternative. Under the price conditions of the first half of April, the “damper” can compensate the discount by no more than 39%. Even at this level of compensation, AI -92 is being traded on the domestic market at 9 950 roubles/t below the export netback. These are the net losses currently being incurred by the petroleum refining industry due to the export restrictions ▲

The expected adjustment to the method of calculating the “damper” is also incapable of drastically increasing gasoline production marginality if it is necessary to continue to sell the product on the domestic market. Even if the adjustment option (see above) that works best for the refineries could be used in April, the “damper” would still cover only 47% of the current discount. ■

Jet fuel sales margins for refuelers remain high

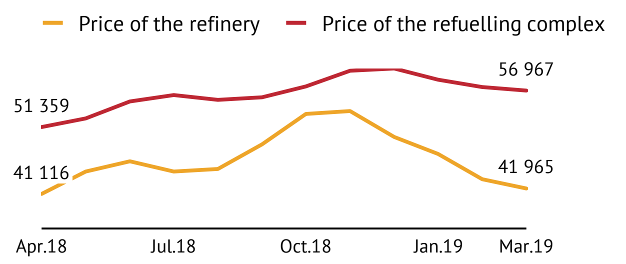
In March, the average price of jet fuel purchased from the manufacturer fell to 41 970 roubles/t – a 3% drop on the February figure. ▶

The product also fell in price at airport refueling facilities; in March, the average price amounted to 56 970 roubles/t, 1% down on the February average value. In March, the average jet fuel sales margin for refueling complexes increased by 100 roubles/t to a value of 9 100 roubles/t. ▶

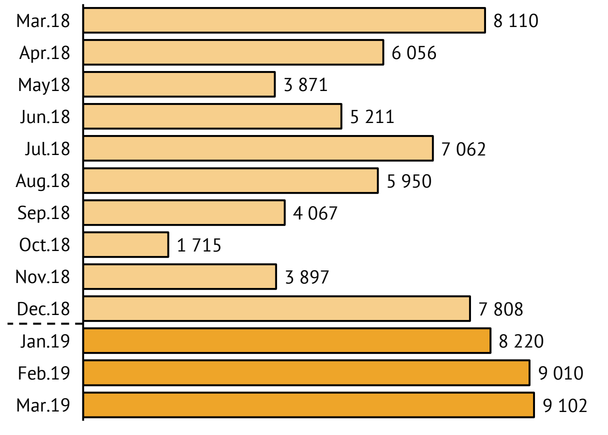
The decrease in the refinery prices for jet fuel takes place against a backdrop of growing export netback for the third month in a row. As a result, the domestic market premium fell in March to 50 roubles/t.▶

This is usual for March, with the domestic spot market premium falling in line with the decreasing demand for jet fuel as a component of off-plant winter diesel fuel blending. ■

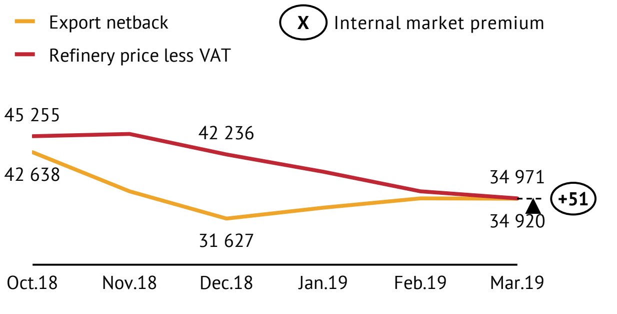
▶ *Average prices for jet fuel in Russia by sales channel, roubles/t in 2018/19 plus tax*



▶ *Average net margin in Russia for jet fuel sales to refuelling complexes in 2018/19, roubles/t less VAT*



▶ *Average refinery prices in Russia and export netbacks on jet fuel in 2018/19, roubles/t*



Russian Fuel Market
Weekly analytical publication
Sources of information
The publication contains Petromarket RG’s estimates made on the basis of data sourced from CDU TEC, SPIMEX, Thomson Reuters, the Federal Air Transport Agency (Rosaviation) and transport statistics
Publisher: Petromarket RG LLC
General Director: Ivan Khomutov
Editorial team: Ivan Khomutov, Anna Lishnevetskaya, Vladimir Prokhorenkov
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Methodology

Methodology of published indicators is available upon request