

RUSSIAN EXPERTS: CRUDE OIL SOLD TO POLAND WILL STOP MEETING CONTRACTUAL NORMS

Eastern European and Russian experts discussed declining parameters of Russian crude exported to Poland and Germany at the Oil and Gas Markets of Eastern and Central Europe conference held in Minsk, Belarus. In their opinion the problem is going to escalate and within a year we may expect that Russian crude will not meet the standards laid down in the contracts signed by Rosneft, Tatneft. PKN Orlen and Lotos Group.

Russian media have repeatedly highlighted that Western sanctions imposed on the oil industry are problematic. The exploration companies on the Russian territory are mainly focused on heavily depleted Western Siberian deposits due to lack of financial resources for development of new Eastern Siberian or Arctic shelf fields. Specific restrictions set up by the EU and the USA result in disturbed financial and technology transfer which is then reflected in the poor quality of the Russian crude exported to other countries, including Poland.

Transneft, the Russian pipeline operator, facing these challenges, had been considering various scenarios over the two previous years. The first was separating poor quality crude (in order to sell it by sea to Europe) from the good one which would have been transferred to Poland and Germany via *Druzba* pipe system. The another possibility was to blend two types of crude to maintain at least bearable quality of oil's production intended for export.

I participated in the conference in Minsk last week, seeing the most prominent experts on energy from Eastern Europe and Russia. Declining quality of Russian exported crude was one of the leading topics. 'The situation is getting worse and causing problems with key customers like China', speakers concluded. To fulfil Chinese demands, 22 mln tonnes of crude were transferred from the western pipe system to the eastern one which ensured proper parameters of the commodity. However, such an action affects the quality of crude exported to Europe.

The conference's experts have perceived the situation as dangerous for Russia's crude export, causing the industry's full inefficiency at the beginning of the next decade. Due to the prospective problems, Transneft considered the scenario of crude separating to be unrealistic. According to experts gathered in Minsk, the Russian operator declared that there would be a shortage of customers ready to buy blended crude – even assuming its export through ports of Primorsk and Ust-Luga. Equally, in the company's opinion the process of separation itself would be too expensive. Yet, what does this all mean? It seems that Transneft has chosen a 'wait-and-see strategy', expecting cancellation of sanctions and quick recovery.

The whole situation is extremely interesting in the Polish context. PKN Orlen and Lotos Group reassure that crude received from Russia still fulfils contractual requirements. However, taking into account what was told at the conference, we can assume that commodity meets lower limits. In other words, it is more than likely that within a year Polish oil companies may start to receive crude of unsatisfactory

quality from Rostneft and Tatneft (which is, by the way, a company operating in Tatarstan, where the problem of crude contamination is particularly acute). This in turn will force negotiations with Russian partners.

This should be read in the context of incentives for further oil supply diversification in Poland. Despite the clear logistic predominance of Russian oil companies and profits made on differential, it is necessary to intensify crude import from other suppliers. Blending non-Russian raw materials with Siberian crude may give satisfactory results along with ensuring national energy security. The whole process has been enhanced already. It is no coincidence that as many as 40% of crude processing in Gdańsk Refinery in the first quarter of 2018 came from spot contracts was non-Russian.