

Oil Refining a Key Card in Negotiations with Minsk

By [The Moscow Times](#)

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Russia risks gasoline shortages next year as its refineries fail to keep up with tighter emission standards, which could embarrass President Vladimir Putin and force Moscow to send Belarus more cheap crude in return for refined fuel.

Moscow has introduced cleaner gasoline requirements although many of its refineries have not been upgraded and Putin's government needs imported fuel to avert politically damaging lines at the pumps.

This will weaken Russia's hand in annual talks with its ex-Soviet neighbor Belarus, which exports gasoline and diesel refined from subsidized Russian crude oil deliveries and wants more to bolster its struggling planned economy.

Russia has already made its crude-for-products offer but Belarus is holding out for a steep increase, creating uncertainty for Europe's oil market, which lost pipeline supplies to Europe

via Belarus during a price dispute between Moscow and Minsk in 2010–2011.

"The situation in the spring of 2013 will be quite similar to what we had in 2011: constant crisis meetings, daily supply/demand calculations, accounting for every ton at every petrol station, just to keep the fuel flowing from the pump," a Russian oil products trader said.

If that scenario arises next spring, it is likely to fuel discontent among voters who recently returned Putin to the Kremlin for a third term as president, but did so amid street protests.

The problem has arisen because Russia will phase out Euro II gasoline and diesel, out of circulation in Europe since 1996, from the new year to come closer to EU emissions standards and spur output of quality fuels to meet rising domestic demand.

This year, Russia's Energy Ministry has estimated that the change in gasoline specification to reduce emissions of sulfur, a cause of lung disease and acid rain, would exclude 800,000 to 1 million tons from Russia's gasoline pool, around 2.7 percent of annual consumption.

Russia's previous attempts to exclude Euro II gasoline have aroused political tensions in the run-up to elections and have led to postponements.

Moscow holds out the prospect of increased deliveries next year if Minsk guarantees to send gasoline back to Russia. It already unexpectedly increased crude oil supplies to Belarus for November and December.

"The guaranteed return of gasoline will be an important condition of determining the amount," a source close to the talks said.

Belarus, whose economy is still recovering from a balance-of-payments crisis in 2010 that necessitated a Russian bailout, needs the crude to run its two refineries, key earners of hard currency revenues through diesel and gasoline exports to Europe.

Belarus is asking for 23 million tons of crude oil, or about 460,000 bpd, up from 21.5 million tons promised this year. Russian officials say the volume has yet to be approved.

Belarus President Alexander Lukashenko said Russia was offering only 18 million tons, an effective cut.

"We have agreed with Russia on everything with the exception of 4 to 5 million tons of oil. We would like to refine 23 million," Lukashenko said last week.

Russian oil producers, which own almost all the country's refineries, have fallen behind on upgrading facilities. State controlled Rosneft is the largest producer of Euro II gasoline and has not kept up with upgrades. Some other refiners have upgraded to make Euro IV and V.

Seasonal factors are likely to heap pressure on the gasoline tightness in spring as high summer demand approaches.

To illustrate the seasonal rise, in 2012, Russian domestic monthly gasoline deliveries rose to 3.235 million tons by August from a minimum of 2.66 million tons in February, climbing by an average of 100,000 tons per month.

One oil company source said that the ministry's calculation of up to 1 million tons being lost to the gasoline pool under the proposed transition from Euro II might well prove to be unrealistically low.

"The Energy Ministry's estimate was based on the companies' plans and promises to switch from Euro II to Euro III while maintaining and even increasing volumes," the source said.

"But what is really going to happen? Someone won't manage in time, someone will have a refinery accident, and suddenly the deficit will be more than a million tons," another oil company source said.

Putin has said he will not cut refiners any more slack.

"We have pushed back the introduction of new (fuel) standards as some industries had not been ready for it," he said last month at a meeting of regional officials in Yaroslavl, an industrial city that has a large, relatively modern refinery producing Euro V fuels.

"But we can't postpone it indefinitely."

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