

# Crude Prices Soar as Rosneft Cuts Off Small Refiners

By [The Moscow Times](#)

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Russian state-controlled oil company Rosneft has cut off supplies of crude to small Russian refiners since its acquisition of TNK-BP, traders say, stifling local plants by driving domestic prices above world rates.

Rosneft has refused to comment on the move, widely reported by market participants, many of whom speculate its aim is to force small refiners who had bloomed on the back of trade with TNK-BP eventually to sell out or disappear.

For now, the cutting off of supply to those plants has prompted other Russian producers, such as Lukoil, to step in to fill the gap, reducing exports of crude to multi-year lows.

Domestic crude prices have risen over 20 percent for June delivery versus May and are now more attractive than the alternative of exporting, traders say. That in turn will add to downward pressure on world oil prices that are already falling.

Some market watchers say the supply squeeze is designed to force the minor players to sell out or just exit the sector entirely.

Traders said quotes for spot delivery in June on the Russian market had reached a nine-month high after deals with TNK-BP were not honored, and Rosneft's offers, which traditionally made up a third of total volume on the market, dried up.

Rosneft did still supply large volumes to several plants including Afipsky and Khabarovsk, but exports have also faltered as other suppliers take up the slack apparent at others.

"Before we bought oil from TNK-BP. But Rosneft said it won't give us anything. We have to find other ways and seek other suppliers," a trader at a local refinery said.

The fall in exports reduces revenue to the government of President Vladimir Putin, who is struggling to boost a faltering economy and keep inflation in check, especially on fuel in a country obsessed with cars.

Rosneft, led by Putin ally Igor Sechin, declined repeated requests for comment.

It acquired TNK-BP earlier this year from a consortium of Russian billionaires and British oil company BP, making it the world's largest listed oil company. But the buyout caused conflict within TNK-BP, which, insiders say, was not used to the state company's tough management techniques, and dozens of top employees left.

The world's top listed crude producer appointed new managers last week, including BP veteran Marcus Cooper to take charge of Rosneft's trading department.

While the market debates Rosneft's reasons, the domestic spot market, estimated at around 3.5 million tons (25.7 million barrels) of crude per month, is suffering, leaving small producers and firms that lack refining capacity struggling to cover their needs.

Prices at West Siberian metering points for June jumped to 12,600-13,200 rubles (\$400-420) per ton from 10,500-10,900 rubles in May and highest since September.

This is more than the exporting netback via Baltic Sea port Primorsk — the price excluding transportation costs and export duty — for Urals of 11.350-11.900 rubles, according to media calculations, reflecting lower global crude prices.

Rosneft sold a 100,000 ton parcel of oil from the republic of Udmurtia for 12,830-12,900 rubles per ton, 20 percent higher than in the previous month, traders said.

"It is pure madness to buy for such a price with Brent falling. Margins are close to zero; it's better to halt the plant for maintenance," a trader said.

Rising domestic oil prices have also contributed into thin Russia's exporting volumes, with shipments via Baltic ports dwindling down to its lowest since 2004.

Leonid Fedun, deputy head of Russia's No.2 crude producer Lukoil, said on Tuesday his company would cut seaborne exports, mainly via the Black Sea, due to high margins — up to \$200 per ton — on the domestic market.

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