



POTEN TANKER OPINION



Russia Self-Sanctions

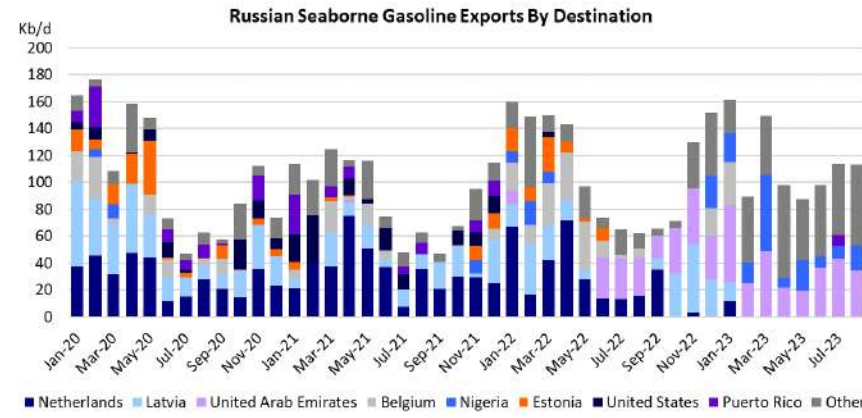
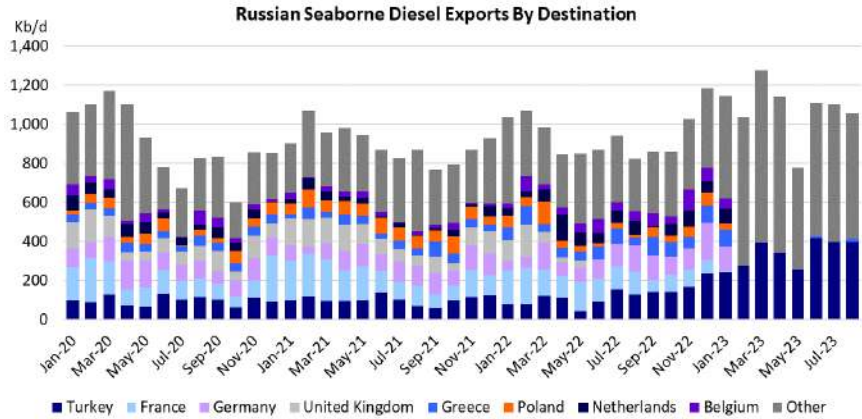
What is the impact of the Russian fuel export ban?

On September 21, 2023, Russia announced that it would temporarily ban exports of diesel and gasoline, to lower the prices of these products for Russian consumers. As global oil prices increased, exports have become more profitable for Russian refiners, raising domestic prices and reducing availability of diesel and gasoline. The export ban goes into effect immediately but exempts exports to Armenia, Belarus, Kyrgyzstan and Kazakhstan, as well as exports for humanitarian help, exports under intergovernmental agreements and for Russian military in foreign countries. It is unclear what will happen to existing sales that have not been loaded yet, we assume they will be shipped. This week we will take a look at Russia's exports and the potential impact of this ban.

After the invasion of Ukraine, Russia stopped reporting their official energy statistics. Vortexa data shows that Russia exported 114 thousand barrel per day (Kb/d) of gasoline and 1,081 Kb/d of diesel and gasoil in 2023 (Jan to Aug) using tankers. Pre-war, Europe was by far the main importer of Russian petroleum products, but after the start of the EU import ban in February 2023, Turkey has become the largest importer. In 2023, Turkey has imported 31% (2022: 13%) of Russia's diesel/gasoil exports and Brazil has imported 10% (2022: 0%). The third largest seaborne importer of diesel is Saudi Arabia at about 7%. For gasoline, the UAE has become the main importer with 32% of Russia's exports (2022: 17%) followed by Nigeria with 18% (2022: 4%) and Libya with 10% (2022: 1%). It is apparent that some of these countries use Russian imports to replace domestic production and export these freed up barrels for a higher price.

The loss of these exports will likely further worsen the global diesel shortage that already existed before the Russian ban. In 2023, Russia was the largest seaborne exporter of diesel and gasoil, followed by the U.S. and Saudi Arabia. Turkey, as the largest importer of Russian diesel, needs to find alternative sources as do the buyers of Turkish exports, mainly Mediterranean countries such as Greece, Romania, and Italy.

A key question is: How long is Russia going to maintain the export ban. According to JODI, Russia used about 665 Kb/d of diesel and gasoil in 2021, the last available data. While it is unclear what the current demand is, especially how much fuel is consumed in waging the war, it is clear that diesel production far exceeds domestic demand. The situation for gasoline demand is more balanced as Russia consumed 850Kb/d in 2021 and exported only about 114 Kb/d in 2023. Given the above, we believe it is likely that Russia will not maintain the diesel export ban for a long time or will not enforce the ban as it has been



Source: Vortexa

stated as they need the funds and they will likely run out of storage capacity for diesel relatively quickly.

Another important question is: What will happen with the ships currently involved in Russian exports. More than half of Russia's seaborne diesel and gasoil exports originate from the Baltic and about 40% originates from the Black Sea. For gasoline, more than 75% is shipped from the Baltic and most of the remainder is loaded in Siberia, mainly Murmansk. About half of the total exports are shipped on Handymax tankers and about 22% on Handysize tankers. LR1 (15%) and LR2 (9%) tankers make up the remainder.

This will be a test in how successfully the ships involved in Russian exports will be in transitioning to other markets. The main owners involved in these trades are Russian, Turkish and some Greek owners. Not all of these owners will find it easy to switch to regular trades as these often involve U.S. or European ports or charterers that might limit their access to such markets through port state control or vetting requirements.

While the duration and the enforcement of the ban is still unknown, it is also not clear how it will affect the tanker market. Initially, there could be a dislocation of tankers that could raise rates as charterers try to secure tonnage, but much depends on how effectively the current fleet serving Russian exports is able to transition to other trades.