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Belarus and Ukraine: a new market for crude oil from the US?

In 2020, both Belarus and Ukraine purchased US crude oil, albeit for different reasons. The scale of import is small, but the market and international conditions could change it. In particular, if Belarus decides to create a more diversified structure of imports, it could count on the US (export of a similar crude oil grade). Unfortunately, the current political situation is not ideal for such supplies. Ukraine is also pushing to diversify its crude oil imports, but a deep crisis of the refining sector plays an important role in this case.

Belarus … has already chosen. The presidential elections in Belarus were held on August 9, 2020. Until then, Belarusian refineries had purchased two shipments of crude oil from the US (deliveries in June 2020 and August 2020). Importantly, these were the first tankers with the new oil grade (*White Eagle Blend*), the physical and chemical quality of which are similar to the Russian Federation's crude oil (*Urals*). The trading company (3 Seas Energy LLC) claims that it is a blend of various grades created precisely in order to approximate the technical parameters of both crude oil grades. This information is not confirmed, but if the deliveries were to continue the technological readiness of the refinery to process this grade could theoretically be confirmed. Undoubtedly, in that case, it would be a solid ground for Belarus to increase the diversification of sources and directions of supplies and to tighten energy cooperation between Belarus and the US. Unfortunately, the current political situation will have a negative impact on any alternative oil supplies to Belarus. At the moment, the next stage of tightening energy cooperation with Russia is taking place.

The cooperation between the two countries covers not only the supply of crude oil but also exporting liquid fuels using oil terminals in Russia in the Baltic Sea. As announced, Belarus was planning to redirect export of gasoline in October 2020 (the first test load is to be 37,000 tons) from the oil terminal in Lithuania (Klaipeda) via the terminal in Russia (Ust-Luga). The product was supposed to come from the Mozyr refinery (240,000 barrels per day), and the buyer was said to be the international trading company Vitol. Interestingly, the last time this type of route was used was three years ago[1], and refineries in Belarus have so far exported liquid fuels mainly through European Union countries (Lithuania, Latvia). In these circumstances, a full redirection of liquid fuel exports from EU terminals to Russia would increase Belarus' energy dependence.

Limping refining sector in Ukraine. Undoubtedly, the picture of the oil industry in Ukraine is definitely different from that of Belarus, where two modern refineries are operating. Due to the lack of modernization and additional investment in these plants in Ukraine over the years, only one of the six refineries is in operation – in Kremenchuk (372,000 barrels per day)[2]. The refinery operates at low nominal processing capacity. The feedstock for the installations is crude oil which is both produced in Ukraine and comes from the other countries. The refinery focuses on producing gasoline, which means that it mainly buys light grades with a lower sulfur level, such as *Azeri Light* from Azerbaijan. In 2020, the Kremenchuk plant received three cargos of crude oil from the US (deliveries in March 2020, May 2020 and June 2020) and it seems that this process will continue. Only price conditions may limit deliveries. Nevertheless, the lack of sufficient processing capacities means that Ukraine depends on fuel supplies, mainly by land from nearby refineries (Poland, Belarus) and by sea (e.g., Azerbaijan via Georgia).

[1] In December 2017, the Belarusian company Belneftekhim signed a contract to export 72 thousand tonnes of liquid fuels through Russian oil terminals, but only one delivery of 37 thousand tonnes took place at that time.

[2] The designed capacity are 372 thousand barrels per day, but the technical capacity are only 160 thousand barrels per day.

For Ukraine, in these circumstances, the role of a transit country for the transport of crude oil to Central European countries is vital. While the Odessa-Brody pipeline, and then the Brody-Mozyr pipeline, is used for pumping crude oil to refineries in Belarus, this route is not used to deliver this commodity to Slovakia, the Czech Republic and Hungary (via the Odessa-Brody pipeline, and then the southern line of the Druzhba pipeline). Technical options exist, but the lack of political decisions is blocking this solution at this moment. In the period January-September 2020, the transit of crude oil through the territory of Ukraine to European countries and to Belarus increased by 5.5% compared to 2019, mainly it was crude oil from Russia to refineries in Slovakia, the Czech Republic and Hungary (94.2%), and the rest – to Belarus (5.8%). During this period, delivery to the Kremenchuk refinery also increased by 8.7% compared to 2019 (mainly crude oil from Azerbaijan and the US).

The US and Russia are competing for markets in Central Europe. In the current conditions (low global oil demand caused by the COVID-19 pandemic), all producers are looking for new market opportunities. However, not every crude oil is suitable for processing in a specific refinery, as it depends on many factors, including domestic and regional demand for fuels and the refining installations existing in a given plant. In this context, undoubtedly, light crude oil from the US (higher yield of light fractions), most of which is exported to international markets, is not favorable for refineries in Central Europe (oversupply of gasoline in Europe). In spite of that, the crude oil is purchased by refineries in Belarus (a special blend) and Ukraine (processing mainly light crude oil). At present, the political situation has a significant impact on the structure of oil imports to refineries in these countries.

Russia's position in the oil market in Central Europe is unquestionable, which is the result of many factors. Undoubtedly, one of the key aspects is the availability of crude, most of which is supplied by the existing infrastructure (pipelines, railways). The refineries have adequate installations for the processing of sour (high sulfur content) Russian grade and have repeatedly made investments to increase utilization yielded from such crude oil (in Belarus in the Novopolotsk refinery the construction of a delayed coker installation is underway). For several years, refineries have been planning to increase the availability of crude oil comparable to the Russian one, but with little success (other producers from Saudi Arabia, Iraq and Iran have a small share in this market and they have to compete with Russia). As a result, based on economic factors, the crude oil from Russia will continue to dominate in the Central European region, so only political decisions and pressure to diversify the directions and sources of supplies may increase the US energy presence in the region.

Conclusions. At the beginning of 2020, Belarus took steps to diversify supplies alternative to the Russian type of crude oil. The increase in the import of this commodity from other directions resulted from the suspension of oil supplies to Belarus (there was no contract regulating the supply and the background of these events was the lack of progress in deepen cooperation within the Union State). Nevertheless, at present the process of diversifying sources and directions will slow down, for example as part of "repaying" Russia for its support after the presidential elections in Belarus. In these conditions, crude oil supplies from the US to Belarus may be thin.

Belarusian President Alexander Lukashenko has recently ruled out privatization of refineries in Belarus, which are technologically advanced plants with a high level of oil conversion. Nevertheless, Russia's pressure to tighten cooperation within the Union States may again result in concessions from Belarus. Then any diversification of sources and directions of crude oil supplies will not be possible. However, it should be remembered that the construction of the Gomel-Gorki pipeline (connecting both Belarusian refineries), which started on October 22, 2020, may ensure greater flexibility of the pipeline system and stimulate further steps towards diversifying the structure of crude oil supplies.

For years in Ukraine, the refining sector has not been properly supervised, which means that one of the largest fuel markets in Europe (high consumption level) is supplied almost entirely with imported petroleum products (gasoline, diesel oil, aviation fuel, etc.). Under these conditions, crude oil imports and domestic production are correspondingly low. In addition, the crude oil purchased from the US is most likely a more expensive option than the oil supplied from Azerbaijan. In this case, the reason why such actions are taking place involves geopolitical factors. In the following years, in order to ensure the presence of the US in the region in many fields and despite the fact that the deliveries of crude oil are carried out on a small scale, these will probably continue.