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Diesel supplies to the Western Balkan countries in the new international environment

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For years, Russia has played an important role in supplying liquid fuels by sea to all of Europe, especially diesel fuel, a key product in the transportation industry. The Russian Federation's armed attack on Ukraine in 2022 led to changes in commodity markets, affecting the volume of liquid fuel imports to the Western Balkan countries. Due to the new market conditions, ships with diesel fuel from new destinations are being unloaded at oil terminals in Albania, Croatia, Montenegro, and Slovenia.

Liquid fuel market in the region. The Russian-Ukrainian war has affected both the way and direction of liquid fuel imports for many countries in Europe. It is worth noting that prior to the outbreak of war, the Russian Federation accounted for about 40% of marine diesel fuel supplies to the continent. Exports were made from oil terminals on the Baltic Sea (mainly Primorsk, Ust-Luga, Vysotsk) and the Black Sea (Novorossiysk, Taman, Tuapse). The change in international conditions meant that many liquid fuel trading companies, including in the Western Balkan countries, had to change suppliers. This type of modification was the result of both the sanctions, introduced as of February 5, 2023, preventing countries belonging to the European Union from importing liquid fuels from Russia (Croatia, Slovenia), and the fear of potential EU sanctions in a situation of further cooperation with Russia (Albania, Montenegro). As a result, the region saw a refocusing of the local liquid fuel market, which, significantly, took place without uncertainty in the form of liquid fuel shortages at stations.

In the Western Balkan countries, refineries operate only in Albania and Croatia, while in Montenegro and Slovenia, all of the liquid fuel used in the economy is imported. In Croatia, it is predominantly the Rijeka refinery (capacity of 90,000 barrels per day), while in Albania, refining is mainly at Ballsh (20,000 barrels per day), Fier (10,000 barrels per day), and Elbasan (5,000 barrels per day – bitumen production only). That having been said, the Rijeka refinery underwent investment work from November 2022 to May 2023, resulting in the plant not producing liquid fuel. Albania, on the other hand, primarily operates refineries with small refining capacities. At the same time, they are semi-complex plants (producing basic products, including gasoline, diesel, etc.), which require modernization.

Given the low capacity of liquid fuel production at refineries, including diesel, an important function in the region in the process of moving away from Russian commodities is played by import infrastructure. Liquid fuels by land (mainly railroad tank cars) are delivered from refineries located in Central European countries, that is, primarily from Austria (Schwechat), Serbia (Panschevo), and Hungary (Százhalombatta). Regarding sea deliveries, a large portion of the imports realized in the past came from Italy (35% market share in 2021) and Greece (23%). Thus, the situation in refineries located in these countries has affected diesel fuel exports to the Western Balkan countries. Importantly, the market and supply volumes have recently been affected by maintenance work at the refineries in Livorno (shutdown since mid-April 2023) and Sarroch in Sicily (reduced throughput due to repairs to one of the crude distillation units since March 2023), in Italy and Corinth (maintenance work from mid-May 2023 to mid-July 2023), and Greece. Under these conditions, imports from other countries, carried mainly by sea, have increased.

Impact of sanctions on liquid fuel supply directions. Sanctions imposed on the Russian Federation have led to changes in the sources of marine diesel fuel supplies to Western Balkan countries. Oil terminals (ports) in

Albania (Porto Romano in Durres and La Petrolifera Italo in Vlorë), Croatia (Bakar, Gazenica, Omišalj, Ploce, Split, Zadar), Montenegro (Bar)[1], and Slovenia (Koper) are used for liquid fuel imports. In 2023, compared to previous years, there have been significant changes in the sources of diesel fuel. Firstly, according to data for the first half of 2023, imports of this liquid fuel from the Russian Federation accounted for only 2% of supplies compared to 13% in 2022 and 11% in 2021. Thus, the Western Balkan countries have almost completely abandoned the supply of this liquid fuel from Russia due to the sanctions imposed. Secondly, supplies of this liquid fuel from Saudi Arabia increased, accounting for 31% of supplies in 2023 compared to 24% in 2022 and 20% in 2021. This was the result of, among other things, recent repair work at refineries in Italy and Greece. Nevertheless, Saudi Arabia's growing share in the region is a consequence of both increased price competition[2] and filling the gap left by liquid fuels, mainly diesel fuel, from Russia. Thirdly, there have been the first diesel fuel deliveries from India. In the past, this country's refineries directed exports mainly to the markets of Asia-Pacific countries, but the gap in the supply of the product on the European continent after the Russian Federation's invasion as well as favorable price conditions have caused Indian companies to realign their activities in this regard. Thus, according to data for the first half of 2023, India's share of offshore diesel fuel supplies stood at 7%. Fourthly, supplies from Italy declined to 39% in H1 2023 compared to 44% in 2022 and 35% in 2021. This situation is a consequence of both maintenance at refineries in Italy and high competition mainly from suppliers in Saudi Arabia. Fifth and finally, there was a stabilization of supplies from Greece at 12% against 11% in 2022.

Conclusions:

- The market situation for diesel fuel in the Western Balkan countries is stable, with supplies coming in by both land and sea. Due to the Russian-Ukrainian war and the EU sanctions imposed on the Russian Federation, there has been a significant drop in diesel fuel supplies from this direction. Local entrepreneurs, fearing the possibility of being subjected to EU sanctions, reduced their cooperation with Russia and began the process of diversifying their liquid fuel supply sources. The gap in the availability of diesel fuel has been filled both by plants that have traditionally been liquid fuel suppliers, mainly from Italy and Greece, but also in recent months, primarily by producers from Saudi Arabia and India.

- The fuel markets of Albania, Croatia, Montenegro, and Slovenia have recently been affected by the maintenance underway at both the Rijeka refinery in Croatia as well as in Italy and Greece. Despite the already partial completion of modernization and investment works (Rijeka, Corinth), in the long term, difficulties can be expected for refineries operating across Europe, which will result from increasing competition among producers, including rivalry with plants from Middle Eastern countries and India.

- While the Western Balkan countries import liquid fuels from the Russian Federation to a limited extent (mainly Slovenia), some of the products supplied, including diesel fuel, come from the refining of crude oil from Russia. This situation applies to both onshore supplies from the Százhalombatta refinery, which imports crude oil from Russia via the Druzhba pipeline (southern line), and offshore supplies, as a large portion of the crude oil processed at refineries in India is currently of Russian origin.

[1] The Montenegrin government is considering increasing the importance of the port in ensuring the country's energy security through the construction of a regasification terminal with an import capacity of 3 bcm of natural gas per year, which is expected by 2025 ("IEŚ Commentaries," No. 915).

[2] In Europe, refineries are burdened with various taxes, including those of an environmental nature, which do not operate in other regions. In many cases, liquid fuel production costs are also lower, due to access to cheap crude oil (e.g., the Middle East), natural gas (e.g., the U.S.), and electricity. M. Paszkowski, *Refining industry in Central European countries: conditions, challenges, prospects*, Lublin 2023, p. 38.