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March/April 2008

Russians make Baltic waves

Two new players are looking to grab big local bunker shares.
Nick Jameson reports on their prospects and the future of the regional market.



Gazpromneft and Rosneft entering the St. Petersburg market.

The Russian port of St. Petersburg is the bunker hub of the northern Baltic and its market in 2007 was estimated to be in excess of two million metric tonnes.

Its bunker prices, meanwhile, have been the cheapest of any major port in the world. At the beginning of March 2008, 380 centistoke (cst) intermediate fuel oil (IFO) was selling at around \$335 per metric tonne (mt).

Nowhere else in the region did prices approach such levels. In Rotterdam, for instance, Europe's largest bunkering port, the price of 380 cst bunker material was almost \$130 per mt higher.

Despite St. Petersburg's extraordinary price competitiveness, the market's top suppliers in 2007 were able to hold relatively stable positions. As the year drew to a close, however, it was obvi-

ous they were facing a major challenge.

In October, Russia's largest oil company, Gazpromneft, announced it was entering the Russian bunker market as a physical supplier.

Working through its subsidiary, Gazpromneft Marine Bunker, the company said it aimed to sell some 1.5 million mt of bunker fuel a year by 2009. It said it would focus on the ports of St Petersburg, Novorossiysk, Murmansk and Russia's Far East.

By December, the Director-General of Gazpromneft's new marine fuel subsidiary was reporting that the first bunker delivery had been made - a 700 mt stem to a vessel in St. Petersburg. The company later said that in its first three weeks of operation it had sold 10,000 mt of bunker fuel, half being delivered

direct to ship operators in St. Petersburg and the rest to companies in Primorje in the Russian Far East.

Second Russian enters

Before Russian bunker players could properly digest the implications of the Gazpromneft move, another Russian energy giant announced its intention to become a major supplier.

The oil company Rosneft, which had been supplying bunkers on a small scale since 2002, said it planned to be supplying 10 million mt of bunker fuel a year by 2020.

In the short-term, it said it wanted to be supplying between three million and five million mt of bunker fuel annually by 2010, adding that it had already expanded its operations and had

started supplying bunker material from its refineries to its port terminals.

The strategy, it said, would be to grow its bunkering business in the Russian Far East, the Black Sea, and in the White and Barents Seas.

St. Petersburg was not mentioned specifically, but Rosneft has berths at the port and at terminals in the nearby ports of Vysotsk and Primorsk. Furthermore, a Rosneft spokesman, addressing a conference at the end of 2007, made it clear that the company saw St. Petersburg and the Baltic as a key bunker market.

Challenges and opportunities

Observers of the Russian market say GazpromNeft and Rosneft hold key positions in the coun-

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BALTIC REVIEW

bunker
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**BUNKERWORLD
ANNUAL SUBSCRIPTION
RATES:**
Magazine: \$95
Full online license (including
News and Prices): \$2495
5 user news' online license:
\$1,245

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try's energy industry infrastructure and that the energy giants' potential as bunker suppliers in Russian ports is huge.

They have access to pipelines and storage facilities and, crucially, to product. If the companies come close to achieving their targets, said sources, the players that currently dominate the St. Petersburg could be squeezed to the margins.

"Of course, the presence of such big companies will make the existing competition even harder" said a source at Transbunker Group which, operating through Bunker Holdings Ltd., is one of the largest independent bunker suppliers in the Commonwealth of Independent States.

"Competition is not a bad thing at all, and we all here in St. Petersburg are more than accustomed to this sort of life. Nobody can argue with the fact that the majors possess potential power in financing, product supply and transportation. But St. Petersburg is not the first place in the world where big majors have entered bunker markets and have started operating abreast of independent companies.

"St. Petersburg players already have experience in sharing the market with Lukoil - another oil giant. Its subsidiary Lukoil-Neva has been operating here since 2001. We hope that Russian Majors entering St. Petersburg bunker market will bring developments, opportunities and challenges to the market and will stimulate growth."

Independent strength?

"And there is another side of the coin," said the Transbunker source. "In Transbunker we have done a lot in the last couple of years to have control at every stage of the supply chain, building up our own infrastructure in terms of terminals, storage space and bunker barges.

"We have a choice of refineries from whom to source product, allowing us to strike the best price/quality balance. Against such a background, and with the flexibility that comes from being an independent, we can hope to meet the market's needs and to keep our market share."

Other players, however, sense that the markets could move

against the independent players. One source close to the St. Petersburg bunker market said the independents risked being pushed to the margins.

"Obviously with the majors' ambitions, and with control of the fuel oil being produced from Russian refiners, Rosneft and Gazpromneft, after agreement with Lukoil and TNK-BP, will control the bunker market sooner or later."

He predicted that competition would dwindle and that prices could rise. "The current differential between St. Petersburg and Rotterdam is the driving reason for the majors' interest in bunkers."

The current market

Bunker demand in St. Petersburg has been driven by container liners, tankers and bulk carriers. Container ships account for around 25% of the market.

The port, at the eastern-end of the European Sulphur Emissions Control Area (SECA) stretching from the Baltic, through the North Sea to the English Channel, has seen a dramatic increase in demand for low-sulphur bunker fuel. Low sulphur product now

accounts for some 60% of residual fuel oil sales.

The companies that have shaped the St. Petersburg market have been operating in an almost unique market. Their low prices reflect the fact that they are able to buy product from Russian refineries without paying Russian export tax.

At the same time, competition between the port's suppliers has been genuine and fierce, making it impossible for any player to push prices closer to the global average.

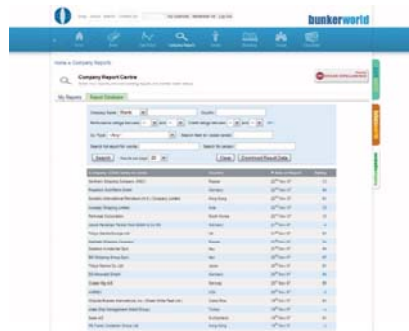
More than 30 bunker suppliers had a presence in the market in 2007, but the leading five or six held more than 60% of the market. Baltic Bunkering Company (BBC) and Nevskiy Mazut, are the two top players in terms of market share. The other leading players are Transbunker (Bunker Holdings), Eco Phoenix, Lukoil-Neva and Konto Spb.

Although bunker sales have been rising steadily year-on-year, profits for bunker players have been tight with the wide range of competition ensuring that prices have not climbed close to global averages. ■

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