

# NEFTE COMPASS®

SPECIAL REPRINT REPRODUCED WITH PERMISSION BY ENERGY INTELLIGENCE FOR SPIMEX.

COPYRIGHT © 2021 ENERGY INTELLIGENCE GROUP. UNAUTHORIZED COPYING, REPRODUCING OR DISSEMINATING IN ANY MANNER, IN WHOLE OR IN PART, INCLUDING THROUGH INTRANET OR INTERNET POSTING, OR ELECTRONIC FORWARDING EVEN FOR INTERNAL USE, IS PROHIBITED.

## INTERVIEW

### Spimex Gets Behind Carbon Trading Initiatives

*The increased attention that Russia is paying to climate and emission reduction issues is being keenly monitored by the St. Petersburg International Mercantile Exchange (Spimex). Spimex President Alexei Rybnikov tells Energy Intelligence in an interview whether the exchange can participate in trading carbon units and how online auctions for crude oil and oil products are moving forward.*

**Q: Today, the green agenda is very actively discussed. The carbon dioxide emissions trading is one of the initiatives. Can the exchange participate in this process?**

**A:** We are already taking part in the discussion of these initiatives, in preparation for concrete steps. Many ideas are put forward, companies and government officials, scientists and experts come out with their proposals. But if we talk about CO<sub>2</sub> emissions quotas trading, then today there is not even an item for trading. Our country is seriously lagging behind in this matter. Recently, a law on reducing greenhouse gas (GHG) emissions was approved in the third reading, but it talks about monitoring emissions and reports by companies. This is definitely a good start for further work. An experiment with CO<sub>2</sub> trading is being prepared on the Sakhalin Island. Work is under way, but so far it is only at an early stage.

**Q: From a technical point of view, can the exchange trade CO<sub>2</sub> emissions quotas?**

**A:** From a technical point of view, we can start trading what is called a carbon unit at any time. Although it is still completely unclear what this unit is. The Organized Trading Law strictly regulates that an exchange can trade commodities, securities, currencies and financial derivatives. The carbon unit does not quite fit into any of these definitions. There is no technological problem to trade, but it is necessary to legally define to which category this new trade item belongs.

**Q: How are Urals online auctions progressing?**

**A:** The issue of online auctions for crude and petroleum products is

being actively promoted. Zarubezhneft regularly ships one or two cargoes per month sold through online auctions from the Baltic Sea port of Primorsk. Tatneft ships petroleum products. We have reached agreements, including commercial terms, with another company to start using the auction mechanism. We'll be making an announcement soon and you will probably see the first auction in the summer. We are negotiating with other companies. We can actually create an index of the cost of Russian oil through this mechanism — electronic auctions. It is already clear that the futures contract in the same format as it was launched earlier is not supported by the market, despite the initial intentions of the producing companies. In practice, it turned out that companies are not ready to trade with a fixed price. The new approach did not fit into existing business processes, including in terms of how taxes and duties are calculated, what price risks the company is willing to take on, and so on. While the mechanism of online auctions is already being implemented in the companies' business — there are results and progress in terms of greater transparency of pricing. The emergence of an index for the cost of physical shipments of Russian oil will, over time, make it possible to restart the contract on a new basis.

**Q: How is the work on establishing an integrated gas market in the Eurasian Economic Union [Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan] proceeding?**

**A:** There is dynamic progress here as well. A seminar on the integrated gas market was recently held. They discussed, among other things, aspects related to the organization of exchange gas trading in the EEU. We showed how our trading mechanism works. The main aspect in creating an integrated EEU gas market is the development of interstate documents. The timeline remains the same — by 2025, a single market should be created.

**Q: How do you see the development of the situation with petroleum products trading at the exchange today?**

**A:** Our sales of petroleum products are growing. We saw an

[>> continued on page 2](#)

increase in May compared to April and to last year. Growth is also observed in absolute terms — as a percentage of the overall supply volumes. Today, for gasoline and diesel, the percentage of sales on the exchange is 25% of the total supplies. And if you look at the April data, then for diesel it is already almost 29%; for gasoline, 28%. Under the joint order, let me remind you, that the volume of sales for gasoline is 11%; for diesel, 7.5%; for jet fuel, 11%.

What does this mean? Companies trade on the exchange because it is highly effective. This became especially noticeable during the pandemic, when all work and all document flow was carried out remotely, in electronic form. A number of other factors also contributed to the growth in trading. Many end-buyers entered the exchange. They understand that it is convenient for them here. There is a product, there are clear rules for the entire chain: transaction, clearing, settlements, delivery, organization of contract execution, possible fines. All this has already been worked out, the scheme is working fine.

On the way, we have a project with the participation of Russian Railways to introduce the institute of a Commodity Delivery Operator on the exchange market of petroleum products, which is precisely what builds this link — from the conclusion of the transaction to settlements and delivery of goods through the guarantee mechanism — all this is completely in digital format

with reduced schedule under control of the operator. Thanks to all these improvements, demand is shifting to the exchange. If demand goes here, it is necessary to saturate it here first of all, because the non-exchange market is also tied to exchange prices and indicators. But if you do not saturate the demand on the exchange, and it is here, then the demand pushes prices up. We constantly remind oil companies, traders, and regulators that if you want to fight price increases, you can only do it with supply proposal. Give the product to the exchange and there will be no rise in the exchange price and, therefore, non-exchange prices too.

**Q: Do you see the possibility of petroleum products shortages and higher prices than the domestic market saw at the beginning of 2021?**

A: In winter, no one expected such a sharp increase in demand. The same thing can happen now. Borders closed, it is summer, a vacation season. People will travel around the country by road. Therefore, undoubtedly, an increase in demand for petroleum products is possible. The government has prepared a number of measures in this case, including a gasoline export ban. I hope that it will not be required, because this is an extreme measure, which can result in lower production. It is quite possible to extinguish the increased demand by higher supplies. The industry can do this.