# PetrolPlaza Russia Special. Part 2 – Current state of the market

**After looking at the formation of Russia's fuel retailing industry, we discuss the characteristics, structure and trends of today's market in the context of a devaluated Rubble and a loss of national income due to record low oil prices.**

Since 2014, Russia´s economy has suffered two major blows which have hampered its growth and restricted its development. The collapse of oil prices, which fell from $100 a barrel on June 2014 to the present $30 rate (February 2016), has hit the country hard, with both Government and oil companies suffering the downfall. Meanwhile, the economic sanctions imposed by the West after Russia annexed Crimea have devaluated the price of the Rubble and fomented uncertainty over its stock market.

Of recent years, “only 2015 can be marked by a relaxed and relatively quiet atmosphere on the fuel exchange without any cases of fuel deficiency or abrupt wholesale price spikes”, explains Grigory Sergienko, Executive Director of the Russian Fuel Union (RST). The decline in economic activity has been accompanied by a 5% drop in fuel consumption compared to the last year.

According to the RST and consulting agency InfoTEK, as of 2014 there were around 21,200 filling stations in Russia, of which about 13,000 were independent and 7,400 belonged to major oil companies. In 2011 the number of filling stations owned by the major oil companies were distributed in the following way: LUKOIL – 2336, Rosneft (before the merger with BP) – 1639, Gazpromneft – 1043, Tatneft – 511, Bashneft – 497, and Surgutneft – 299. By that year the Russian independent fuel retailers operated 65% of the total quantity of filling stations in the country. Today these figures have shifted by 5-7% in favour of the major oil companies.

According to InfoTEK, the amount of oil produced in 2014 accounted for 526,7 million tons – 80% produced by the oil companies (Rosneft, Gazpromneft, Surgutneft, LUKOIL, RussNeft, Slavneft, Tatneft, Bashneft). The share of independent small and medium-sized petroleum refineries in the total amount of oil produced accounted for 10% (50 million tons).

In recent years Russia has not witnessed a substantial increase in the number of gas stations. Not only oil companies have not opened many new sites, but they have also dismissed those petrol stations acquired during the 1st repartition (1998-2003) and which have turned out to be unprofitable.

Based on common practices in Europe the oil companies have tended to either to lease these petrol stations out or to sell them with a fractional participation share.

As far as the business activities of foreign companies in the Russian market are concerned, after BP was taken over by Rosneft in 2012, only Dutch oil giant Shell has a significant presence in the country. Apart from an extensive filling station network and ancillary services, it also enjoys a recognizable and prestigious brand in the Russian retail fuel market. Shell buys oil products from Gazpromneft and has been maintaining a sustainable growth in this sector.

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**Interaction of the import and export sectors of the Russian fuel market**

Another characteristic aspect of the Russian fuel market is the relationship between the domestic and export sectors, which are closely connected like communicating vessels. Thus, the Russian domestic fuel market depends on imported products, whereas more than 60% of oil produced in Russia is dedicated to export. Yet, the implementation of such artificial economic instruments as the export duties protect the domestic market from fuel deficiency and help to maintain relatively low fuel prices. In other words, this mechanism enables the state to remove excess profits through the regulation of export oil prices.

In contrast to the average profit margin in Western Europe (5-7%), Russian operators work on rather favourable terms (15-20%). These high margins are compensated by the unbalanced character of the wholesale and retail fuel markets, as well as the artificial control over low national fuel prices by means of the imposition of export duties on oil. Without these export oil duties Russian national fuel prices would match those of Western Europe.

The problematic aspect of the oil export duty is that is only effective when oil prices are high and tend to increase. Whereas, if the oil prices are low and keep falling, the situation can become critical for oil companies, given that the export duty rate remains fixed during two months.

**Current trends of the Russian fuel market**

Today when talking about the future prospects of the Russian fuel market amid the economic recession one can observe a looming crisis of oil production, as oil fields in favourable climate conditions are gradually running low and production is moving towards the northern sea shelf. Under these circumstances production costs are rising and profits are plummeting for oil companies.

Russia´s vast territory suffers from a lack of vehicles: the number of cars per 1000 citizens in Western Europe totals 600, whereas the same indicator in Russia accounts for just over 300. The economic recession has weakened the growing car industry and the resultant demand for fuel.

Although Moscow needs to double its number of gas stations to meet European standards, the network has only increased by a dozen since 2005. Instead, during the last decade there has been a trend for the modernization and renovation of the existing petrol stations in the region.

Intensifying the competition of Moscow´s fuel retailing market would be highly desirable for customers and yet hardly profitable for gas station owners. A chart published by “Sovremennaya AZS” reveals that the average amount of fuel sold in Moscow at one filling station accounts for approximately16,000 – 17,000 litres per day.

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Moreover, the retail fuel market in Russia is not immune from its own internal conflicts and hurdles. One of the main problems an entrepreneur is faced with when opening a filling station is the absence of an assured access to oil products (like discussed in the first part of this Russia Special). That is why, according to G.P.Sergienko, the future prospects of development for a free retail fuel market in Russia seem to be rather vague under the current market conditions.

The rate of development of the free retail fuel market was very fast in the early 1990s due to the flexible approach adopted by authorities and a favourable business environment. Today, however, the state authorities mainly stake on major oil companies and hardly encourage the development of small and middle-sized businesses, which leaves less and less space for the development of the independent fuel market.

According to G.P.Sergienko: “The actual state of the Russian retail fuel market can be described as static and there are no powerful stimuli for the further development of this sector so far.”

In Sergienko’s opinion, the causes behind the current situation lie in the absence of an unlimited access to fuel resources, the unbalanced character of wholesale fuel prices (which are mostly set by major oil companies as the main producers and refiners of oil) and, finally, the bureaucratic and regulatory hurdles tied to the selection of a construction site for a filling station – for local authorities it was more profitable to dedicate land parcels for the construction of a multi-storey apartment house.

Although Russia´s gas stations market has suffered from recent economic stresses, at last year´s Autocomplex exhibitors from the fuel retailing industry believed the country could overcome the adversities and new business opportunities were already emerging.

**In the third and final part of the Russia Special, PetrolPlaza will be looking into the challenges, opportunities and development prospects of the Russian fuel market.*

*Written by Taya Shetle | Edited by Oscar Smith Diamante*

Last update: February 16, 2016

 