Russia

Russian base oils export is growing despite sanctions

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Russia is one of the top four base oils exporters in the world and its overseas loading grew in 2016 and 2017 by 13% and 20% respectively according to rail and river data compiled by DYM Resources.
Export is growing due to several factors:

- Decreased export duty
- New capacity launched
- Ruble depreciation
- Stable demand from overseas markets

Russian base oils export duty decreased from 253.70 USD/ton in March 2014 to 27.3 USD in March 2017. This is because the government is supporting the export of higher value added products. A major reason for the recent increase in the export of base oils is attributed to new Group III production.

Russian Group III currently has no OEM approvals and therefore can compete with the global players with its lower price. Taneco refinery, owned by Tatneft, is a major Group III supplier in Russia at the moment and the producer is loading abroad up to 10 000 tons of Group VHVI-4 grade per month.

New base oils capacities

The Yaroslavl refinery, owned equally by Rosneft and Gazpromneft, launched 100'000 tons per year of Group III base oils in June 2017 and has already started test loading to export markets. The refinery is located in the European part of Russia and is well placed for exporting to Europe. The base oil unit can produce MVI-2, VHVI-4, VHVI-6 and VHVI-8 grades. The refinery expects quality to stabilise during summer 2018. Gazpromneft is now working to establish its own base oils brand "G-Base" and get major OEM approvals for it.

Around 730,000 tons of new Group II and Group III capacities are scheduled to start up in Russia by 2022. All three Russian majors are working on additional base oil capacities. Rosneft's Group II unit in Novokuibyshevsk should be completed in 2018-2019. Gazpromneft is building a Group II/III unit in Omsk and plans to launch it in 2021. Lukoil is working on a project in Volgograd and plans to complete it in 2021-2022.

A significant proportion of this production will end up in export markets.

Domestic market shift

Russian domestic lubricant consumption has been stable to falling during the last three years. However, domestic lubricant production has been growing due to government support measures: the national aim is to produce lubricants locally rather than importing finished lubes. This led to approved Group II and Group III imports and volumes increased during 2016 and 2017. Additive producers also increased their additive supplies into Russia to help the country boost domestic production.

Russian cars sales reached their peak in 2012 and since then have fallen for four consecutive years. Last year, new car sales rose by 12% which gives hope for the coming years.

But the major change is in quality shift: new cars and new industrial equipment demands for higher quality of lubricants. That is why Shell and Fuchs opened blending plants in Russia during the last couple of years, and Total plans to open one in 2018. Some other major lubricant brands, like Valvoline, work in the country on a tall-blending agreement with local plants.

In January 2018 car sales increased by 31% compared to same month a year ago. This could push lubricant demand higher this year. Russian industrial product and GPD growth stood at +0,4% and +1,5% in 2017. The World Bank projects that the economy will continue to grow at around 2% per year in the next 2-3 years. These facts along with stable domestic political situation suggests that lubricant demand in the country will stay strong.

DYM Resources is a base oils and slack wax trading firm, focused on export from Russia and CIS countries.

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