

Russia's raking in billions in oil revenue, but running out of buyers.

Here are the ways the country could deal with its unwanted oil — and what it means for the energy market

Zahra Tayeb - Business Insider



Russia's oil export revenue soared 50% this year. Photo by Janos Kummer/Getty Images

Russian oil producers are having to rely on a diminishing list of buyers to sell their output.

Lock-downs in China have depressed crude demand, while the EU is trying to ban imports of Russian oil.

An industry expert laid out three possible options Russia has to deal with the situation.

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Russia may be reeling in billions in oil revenue, thanks to sky-high crude prices that are the direct result of Western sanctions, but its list of potential customers is shrinking and it's having to pin more and more of its hopes on top commodity importer China.

The US placed a full embargo on Russian energy imports, while the UK will phase out its purchases of Russian fuel. The EU has banned imports of Russian coal, but is still trying to get all member countries to agree to a ban on the country's crude and refined products.

The EU has been Russia's largest crude oil customer and accounted for about 3 million barrels per day of its roughly 7 million barrels a day in exports. But even before there was any talk of import bans, traders were already shunning Russian oil.

Countries like India and China have stepped in to snap up Russia's oil at bargain prices, but in far smaller volumes. India, for instance, has purchased at least 40 million barrels of Russian crude since it invaded Ukraine, topping the amount it bought throughout 2021. But this is still only equal to around 450,000 barrels per day.

China too, has typically been a big customer. The country's independent oil refiners have been quietly buying cheap crude. But while China is taking large amounts of Russian oil lately, its appetite isn't insatiable. Its traders are already importing 1 million barrels of seaborne Russian crude. And the country is still subject to a series of tough coronavirus lockdowns that have weighed on energy demand.

And even if demand from China fully recovers, the two countries that would take in Russia's oil - India and China - would not make up for the loss of EU demand, Fernando Ferreira, a geopolitical risk analyst at Rapidan Energy Group told Insider. "China and India alone are not going to come to the rescue," he said.

Find new buyers

A short-term solution for Russia would be to find new markets. "They will try to find new buyers," Ferreira said.

"They shifted a lot of their customer base from Europe to Asia and they've managed to offset all disruptions so far by selling more to India and China."

But several Middle East exporters produce similar grades of crude to Russia's flagship Urals grade and they have first-mover advantage, he said.

India, for instance, has long-term trade agreements and commercial and strategic relationships with Gulf countries that they would want to maintain. "That's going to limit how much oil they are going to take from Russia," Ferreira said.

Shipping constraints would hinder Russia's ability to move more oil to Asia, he added, as more shipowners and insurers avoid handling Russian oil as a result of tighter restrictions from the EU, for starters.

Cut, or store output

Another viable option for Russia would be to cut production, or build more storage facilities. Russia already started slashing crude production last month due to lower domestic demand.

The Kremlin stated that it sees output falling as much as 17% this year, from around 11 million barrels per day.

"Some of that [demand] may recover somewhat this month. We're seeing refineries trying to offset the drop in production but in the long-term, there is not a whole lot of sustainable solutions other than finding new buyers and they'll struggle with that," Ferreira said.

"The best-case scenario is that India and China and other countries really just step up and absorb all of the disrupted Russian barrels, he said."

It would be more of a dislocation than a disruption, he added.

"The worst-case scenario, I think, would be something along the lines of, Chinese demand will recover and at the same time, you're going to see growing pressure on imports from Russia," Ferreira said.

The Russian government in April said it was considering building storage facilities for 700 million barrels of oil — equal to around 70 days of global consumption, Reuters reported.

Ferreira said oil prices "may be pretty close to the peak already." But there's still a possibility of a shortfall of 2 million barrels of oil a day if Russia can't find new customers, he said.