

## Russian LPG market hopes for reverse excise tax

The Russian fuel market took a stress test: the demand for all types of motor fuels has dropped by 70% by April, but shortly after lifting the restrictive measures, the depression caused by COVID-19 was replaced by a feverish demand. At the same time, temporary relaxation for a minimum volume of petroleum product sales through commodity exchange came to an end. The measure had been introduced earlier to support producers. The leading players in the industry commented on how this “double blow” will affect the market and the future price for liquefied petroleum gas (LPG).

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The gross volume of LPG production in Russia reached 17 mln tons. The volatile LPG market has always been characterized by seasonality in consumption by gas-powered cars and by households. However, the beginning of the season this year coincided with the imposing of quarantine measures against the coronavirus pandemic. As a result, in April and May the demand for all motor fuels dropped sharply including LPG as automobile fuel. In some places the product's price sank to negative values, and many manufacturers started turnarounds ahead of schedule. In turn, the shutdown of production led to local LPG shortage in many regions.

Restrictions lifting restored the demand while driving up prices by more than 200% (average prices according to SPIMEX for petroleum products and LPG at production sites located in the European part of Russia, the Urals-Siberia and Siberia-Far East). “Indeed, there is a shortage in the market. During the pandemic, demand dropped sharply, then prices fell, says the gas supply company's spokesman. “The case is opposite now, price is going up: while in early May LPG was trading at 13,000 rubles (\$185) per ton, by the end of May the price rose above 30,000 rubles (\$430)”.

### The market will rebalance soon

The market experts interviewed by CREON Group believe that restart of plants back to normal operation would balance the market, and the record extreme prices unseen since the launch of SPIMEX, will not last long. “Unlike gasoline, the price stabilizing mechanism is not applied to LPG, therefore gas engine fuel fluctuated seriously”, - commented a source in the industry. Lower gas supply in the market is an additional factor pushing the price up, caused by OPEC+ agreement in April 2020, as well as by temporary two-fold reduction in minimum volume to be sold at commodity exchange introduced by the Federal Antimonopoly Service (FAS) and the Ministry of Energy of Russia.

Since 1<sup>st</sup> of July, the minimum volume to be sold at commodity exchange returns to the previous value (for LPG the requirement is 5% of the production volume). Moreover, FAS initiated a discussion to increase this lower limit. “We expect that this proposal will be hardly accepted by oil producers, since there is also the OPEC+ agreement which entailed reduction in oil output in general and in oil feedstock used for fuel production. But we are convinced that the growth of supply at the commodity exchange will have its impact, the price will stabilize, and the tension will be relieved”, says Armen Hanyan, head of the FAS regulation department for the fuel, energy and chemical industries.

### Waiting for reverse excise tax

Market recovery and development of LPG consumption in petrochemicals will be supported by the introduction of reverse excise tax. “The drafting of the law is at the final stage of approval between the federal executive authorities involved,” says Anastas Gatunok, Deputy Head of the Directorate of the Fuel

and Energy Analytical Center of Russia's Ministry of Energy. According to the expert, the draft law provides for the excise tax deduction depending on the volume of investments in the development of petrochemical capacities (at least 300,000 tons of feed capacity per year for new facilities).

For example, if the company invests in new production (and commissions) or in modernization of existing capacity at least 65 bln rubles in the period from 2021 to 2027, the fixed rate would be 4,500 rubles (\$65) per ton of LPG since January 1, 2022. If investments exceed 110 bn rubles (\$1.6 bn), the bill provides for stepwise indexation of excise tax: 5,500 rubles (\$79) per ton from January 1, 2024; 6,500 rubles (\$93) per ton from January 1, 2025, and 7,500 rubles (\$107) from January 1, 2026.

"The re-introduction of commodity exchange trading requirements, coupled with ending the oil refinery turnarounds that had started ahead of schedule, will quickly saturate the LPG market. Moreover, the planned introduction of a reverse excise tax will increase the local processing and consumption of LPG as a feedstock for the petrochemical industry, which the CREON Group had been encouraging the industry for many years," considers CREON Group's general manager **Sandjar Turgunov**.

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Conference "LPG market. Emerging realities" in St. Petersburg, on October 8, 2020 ([Program and registration](#))