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## Argus White Paper

# Argus Jet Fuel Prices in Russia and Kazakhstan

The price of physical bulk jet fuel can be discovered in several openly traded spot markets around the world, such as Rotterdam, Singapore, and Houston. But in many regions where jet fuel is consumed, there is no openly traded spot market. Russia and Kazakhstan are the regions, where market liquidity and price transparency are relatively low.

Most Russian and Kazakhstan domestic jet fuel is sold at fixed prices by an airport's fuel terminal, which is often a sole supplier. The lack of competition in the aviation fuel market is closely linked to the specific nature of transport system, lack of storage infrastructure and regulation policies that had been inherited from the soviet era with the planned economy. Airlines, government entities and suppliers are looking for a fair price index that they can use for local transactions.

In response in 2011, Argus launched spot and formula assessments for Moscow airport junction, which represents over half of the jet fuel market in Russia. Moscow commercial airports Domodedovo, Sheremetyevo and Vnukovo are supplied from ten or so refineries in Russia by vertically integrated oil companies and traders. This is the most competitive jet fuel market in Russia. In addition, Argus publishes weekly prices for domestic market in Kazakhstan at refinery in Chimkent and imported jet fuel assessment at the Russia-Kazakhstan border (dap Kartaly).

### Daily assessments for Russian jet fuel

The daily spot assessments are based on information on deals done, bids and offers collected from suppliers, traders and airlines by personal contact, telephone, email and instant-messenger. A cross-section of buyers and sellers are consulted and the market information cross-referenced with active market participants. A consensus value of bid and offer levels is then determined and used to generate the price for jet fuel basis fit (free in tank) storage terminals of Moscow airports Domodedovo, Sheremetyevo and Vnukovo. This daily spot assessment is entirely suitable for airlines and suppliers to use to price term contracts for jet fuel.

The formula price index is based on Argus cif price quotation in northwest Europe netted back to Moscow refinery via the port of Ventspils. Details of the index calculation are listed below. Unlike the spot assessment, the formula index is not a transparent spot market price that an airline can directly link to. Instead it is a baseline price from which companies can begin to negotiate fair and competitive premiums.

### How should prices be determined?

The Russian domestic jet fuel market is dominated by a handful of key producers and airport terminal owners. The four largest

refiners produce over three quarters of Russian jet fuel. Many airports in Russia have only a single storage/fueling operation, and access to airport fuel terminals for independent suppliers is restricted.

Moscow airport junction is the only market in Russia where relative competition and liquidity allows Argus to collect sufficient information for independent price assessment. For this reason the price indices in Moscow can serve as benchmarks for the Russian jet fuel market.

Activity on the Moscow jet market is concentrated in the last and first weeks of the month when airlines purchase fuel for the next month. Most of these purchases are term contracts with different payment terms and other conditions. The price in these deals is often not related to any market indicators. But smaller volumes are sold on a spot basis through the Spimex exchange and on the OTC market.

Spot prices are usually set based on crude and diesel assessments, the jet fuel supply-demand balance, regional supply limitations and export netback. When the market is quiet, traders are asked to evaluate prices based on the same factors.

The netback logic for jet fuel works in part because of the domestic Russian cost of crude. The price of crude in Russia is relatively low because around half of Russia's production is exported and the domestic sales are far cheaper than what is achieved in the international markets due to high export duties and transportation tariffs. Russian crude is sold domestically at around its netback value – such as Urals crude CIF Northwest Europe less freight, duty, and other costs.

This crude, refined into jet fuel, should also reflect similar differentials to world markets. Russian refineries produce roughly 10mn t of jet fuel per year with most of the product consumed domestically. Civil and military aviation entities buy about 8mn t/yr, and excess product (2 mn t/yr) is exported mainly to northwest Europe and Central Asia.

### How is the Argus Moscow formula price index calculated?

The Argus Moscow formula price index for jet fuel represents the daily value of the Argus jet fuel assessment in northwest Europe netted back from Rotterdam to Moscow (Yanichkino, the Moscow refinery station) via the port of Ventspils. The Moscow refinery is equally close to the capital's major airports Domodedovo, Sheremetyevo and Vnukovo. The index is published in Russian Roubles (including VAT) and US dollars (excluding VAT).

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The index is calculated according to the following formula:

$$I = (B - F - L/EU - D - R)/RR + VAT$$

**B** – Benchmark price

**F** – Freight rate Ventspils – Rotterdam (clean, 30,000t)

**L** – Loading, storage and transportation in Ventspils (Latvia)

**D** – Russian export duty

**R** – Russian railway costs

**EU** – Euro to US Dollar exchange rate

**RR** – Russian Rouble to US Dollar exchange rate

**VAT** – Russian value added tax (used in rouble denominated index)

*All quotations used are for the date of benchmark price assessment.*

### Weekly assessments for jet fuel in Kazakhstan

Argus publishes weekly price for jet fuel in the domestic market in Kazakhstan. The prices at Chimkent refinery are published each Wednesday in Argus Caspian Markets. Information on deals, bids and offers are collected daily by telephone, electronic mail and messengers. A cross-section of buyers and sellers are consulted and the market information cross-referenced with active market participants. A consensus value of bid and offer levels is then determined and used to generate prices for Kazakhstan jet.

The minimum cargo size is 60t, timing – 10–20 days ahead, basis fca at Chimkent refinery with 100pc pre-payment. The values are presented in \$/t.

### Jet fuel at the Russian-Kazakhstan border

Imported jet fuel assessment at the Russia-Kazakhstan border is determined weekly through a survey of importers, wholesalers, consumers and other market participants by telephone and electronic means of communication. All information is analysed in detail and cross-checked. Argus assesses the deals done, bids and offers. The minimum cargo size is 60t with delivery by railway within 10–20 days ahead. The basis is dap Kartaly. Prices are published in \$/t. The price includes Kazakhstan VAT of 12pc at the Russia-Kazakhstan border.

### Government involvement

In 2016 in line with recommendations by the country's federal anti-monopoly service FAS Argus and Russian commodity exchange Spimex launched netback price indexes for jet in Russia.

Jet/Kerosine Argus/Spimex Indexes are derived from Argus assessments for jet prices in Northwest Europe, the Mediterranean market and Asia-Pacific that are netted back to Russian refinery gate prices by subtracting export duty, freight, loading costs, and railway, pipeline or river transportation and associated costs. These indexes, together with exchange and OTC indexes published by Spimex, are designed to establish reliable price indicators and increase transparency in the Russian refined products market.

The indexes are available on the Spimex website, as well as in the daily Argus Russian Motor Fuels report.

### Definitions

#### Benchmark price

The Argus jet fuel assessment basis cif northwest Europe is published daily in the Argus Daily Jet Fuel report in US dollars per tonne. Prices are calculated for 10,000-25,000t cargoes using the Ice gasoil settlement price published by the InterContinental Exchange as a base price. The pricing period is for delivery 5–15 days forward. The basis is CIF northwest Europe standardized to Rotterdam. The specifications are Defstan 91–91 latest issue, 0.800 kg/l specific gravity, EU qualified. The assessment time is 8.30am to 5.30pm London time.

#### Freight rate

The Argus clean freight assessments between Baltic loading ports (Finland, Baltic Russia, Estonia, Latvia, Lithuania, Baltic Germany and Baltic Sweden) and discharge terminals in UK and continental Europe (from Le Havre to Hamburg, centered on Amsterdam – Rotterdam – Antwerp and North Sea ports) are published daily in the Argus Freight report. This rate is multiplied by current World Scale nominal rate for Ventspils – Rotterdam voyage. The rates are for double-hull and double bottom vessels with segregated ballast tanks chartered for 30,000t of cargo. Rates are based on fixtures and market discussion for positions 7-10 days ahead. Argus takes into account liquidity outside this period and market structure.

#### Loading, storage, and transportation in Latvia

Argus conducts regular monitoring of transportation and loading tariffs on major export destinations for Russian oil products. In 2017, the average combined costs of rail transportation in Latvia, storage and loading in the port of Ventspils was €15.3/t.

#### Russian railway costs

The rail tariffs in Russia are calculated for rail tanker cars (RTC) carrying 60t cargo with speed of 550 km/day and 330 km/day on return empty voyage. Laytime is 4 days for loading/discharge and 1 day on each border station.

#### Exchange rates

Argus converts Rouble prices and costs at the current day's rate published by The Central Bank of the Russian Federation (Bank of Russia). Euro to dollar rates are market rates provided by Interactive Data.

#### VAT

The index is converted to Russian Roubles with addition of current value added tax (VAT) rate for use of domestic market participants. The VAT rate in 2017 is 18pc.



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