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## Energy security focus to drastically shift Asia-Europe oil trade flows

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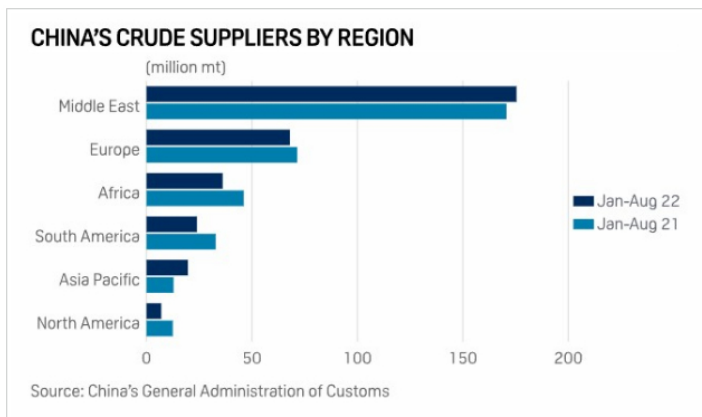
Energy security would be top priority for Asia and Europe over the next couple of years amid growing concerns over Russian gas supply cutoff and oil trade disruptions, setting the stage for unconventional crude flows from Europe to Asia, as well as oil product sales from East to West to flourish, industry executives, traders and analysts said Sept. 26.

The global energy market is grappling with a trilemma, having to choose between energy security, price stability and sustainability. At this stage, energy security is the number one priority, while sustainability is pushed to the back of the priority queue, Russell Hardy, CEO of Vitol, said during a panel discussion at the S&P Global Commodity Insights Asia Pacific Petroleum Conference in Singapore.

"Clearly, there's been a series of [oil and gas] supply disruptions related to the [Russia-Ukraine] war, with the shutdown of two key Russian gas pipelines to Europe," Hardy said. "It's putting enormous strain on the supply-demand dynamics."

"It's not great for sustainability ... creating carbon neutral energy or creating carbon neutral crude, is a good thing, but security of supply has just taken over in the short term," he added, indicating that energy sustainability will recover its premier position in the energy market agenda after about two years.

Energy security is at the top of the agenda, with many governments around the globe aiming to make sure they provide sufficient source of energy, though at the same time not losing sight of energy transition, said Felipe Bayon, CEO at Colombia's state-run oil company, **Ecopetrol**, at another panel discussion session at APPEC.



"I think what's also important is the energy sovereignty ... many countries are trying to provide diesel, gasoline and other oil products to their communities and to their people at affordable rates," Bayon said.

Middle distillates and fuel oil trading managers at Malaysian, South Korean, Japanese and Indian refiners who attended the APPEC event told S&P Global that maintaining relatively high run rates and sustaining ample production of liquid fuels would be their primary focus heading into winter as energy security and gas-to-oil switching are top Asia and global market agendas.

"Inflation and recession concerns are bound to hit consumer demand but the ultimate priority for any government and refiner would be to first ensure adequate supply of essential fuel is guaranteed," a middle distillate trader at a Malaysian state-run refiner said on the sidelines of the APPEC conference in Singapore.

### Asia-Europe oil product flows

Hardy pointed out that a crucial import ban on Russian oil products will start Dec. 5 for Europe, paving the way for major Asian fuel producers to sharply increase their shipments to the west of Suez at premium prices.

"The East-West trading relationship has totally changed in the last couple of months," Hardy said.

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PERIOD	AFRICA		1YR		2YR	
	ATL	PAC	ATL	PAC	ATL	PAC
HANDY (20,000)	17,000	19,000	19,000	18,500	16,000	16,000
SHAKULTRA	17,750	22,750	18,500	17,500	16,500	16,500
PANAMA	20,300	16,300	16,000	15,750	15,000	14,000
CAPESIZE	14,500	14,500	14,500	14,500	16,000	16,000

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SIZE	1 YEAR		2 YEAR		3 YEAR		5 YEAR	
	ATL	PAC	ATL	PAC	ATL	PAC	ATL	PAC
HANDY	21,000	17,500	19,000	18,000				
MRIMOS	28,500	23,500	23,500	24,000				
LRY	33,500	27,500	26,000	26,000				
LRS	40,000	36,500	36,500	33,500				
AFRA (17,000-20,000)	32,500	35,000	31,000	30,000				
SUEZ	35,000	29,000	35,000	33,500				
VLCC	40,000	28,000	40,000	40,000				

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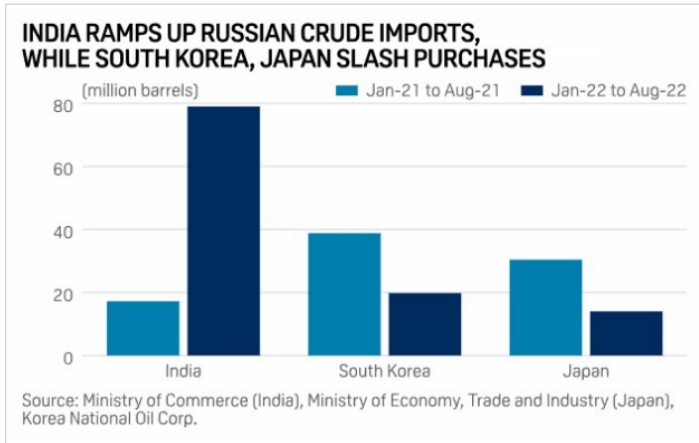


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Echoing this were Japanese and South Korean refinery officials and product marketers, who indicated there were strong incentives for major Asian fuel producers to maintain high production and seek arbitrage opportunity to sell cargoes to the west.



As Russia continues to threaten major European economies by tightening gas supplies, European traders are willing to pay a premium to pick up additional gasoil from the Far East so that they can actively stock up on liquid fuels to support the region's power and industrial sectors, as well as for heating needs, the refinery officials and marketers said.

China sold around 1.93 million barrels of gasoil to the Netherlands in August, latest customs data showed, marking the record-high monthly oil product exports to Europe and placing the Dutch state as the top destination for China's gasoil exports.

South Korea also ramped up exports to Europe in recent trading cycles. Asia's major middle distillate supplier exported 3 million barrels of oil products to the Netherlands in August, compared with just over 1,000 barrels sold to the Dutch state in the same period a year earlier and up 58% from 1.9 million barrels exported in July, latest data from state-run Korea National Oil Corp. showed.

South Korea is Asia's major oil products and petrochemicals supplier, and its refiners would be well prepared to feed the global market with much-needed supply during the peak winter fuel demand season, according to analysts at Korea Petroleum Association based in Seoul.

"South Korea's monthly oil product shipments to Europe averaged less than 250,000 barrels in the past few years, but Europe's strong demand amid active gas-to-oil switch could prompt (South Korean refiners combined) to double or even triple the sales to the west over the next year or so," a middle distillate marketing manager at a South Korean refiner said on the sidelines of the APPEC conference.

#### Russian crude to Asia

In terms of crude oil procurement for Asia, refiners in the East would not shy away from taking and securing Russian crude supply, especially with OPEC and its alliance recently hinting that the producer group could consider cutting back output quotas in an effort to support prices, industry and trading participants said at APPEC.

"Russian commodity would need to find a home that isn't the UK, the US or the EU. It's going to go further and longer distances and find different markets and doing that, it's going to have to trade at a discount," Hardy said. "You're beginning to see that with (Russian crude cargoes) coming East, that would otherwise stay in Europe."

"While Europe is looking forward to taking any surplus liquid fuels available in Asia, refiners in the East, especially Chinese and Indian state-run companies, are keen to secure feedstock crude from Russia ... this is the new trend fast unfolding," a senior market research analyst at a Japanese integrated trading company told S&P Global on the sidelines of the APPEC conference.

India will likely remain an active buyer of Russian Urals crude and its Russian crude purchases will likely surpass 100 million barrels in 2022, the Japanese market research analyst said.

India imported around 79 million barrels from Russia over January-August, more than a fourfold increase from 17.2 million barrels purchased over the same period a year earlier, data from India's ministry of commerce showed.

China's Russian crude imports increased 7.3% year on year to 1.71 million b/d in the first eight months of 2022, latest customs data showed. Russia's market share in China's total crude import basket rose to 17.2%, up from 15.3% over January-August 2021.

Source: [Platts](#)

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