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Interview: Spimex in New Push to Develop Urals Trading

In 2016, the St. Petersburg International Mercantile Exchange (Spimex) launched a deliverable futures contract for Russia's Urals crude oil blend. Three years on, Spimex is offering a new mechanism for promoting the grade on world markets. In an interview with Energy Intelligence, Spimex President Alexey Rybnikov outlines how the exchange is trying to get companies on board.

Q: Last year you admitted that the deliverable futures contract for Urals did not have the success you hoped for. Does this mean that plans to promote the Russian crude grade as a new global benchmark have failed?

A: I would not say that. We have done a great job working with Russian companies and their international counterparts to clarify the mechanism of the deliverable futures contract. On the regulatory side, we have created all the necessary conditions for trading this instrument, for attracting both Russian and international players to the exchange. Over the past three years we've realized that the supply futures contract is not working as planned. The market cannot yet accept this mechanism either from the sellers' side or from the buyers'. This mechanism is not familiar to Russian companies, and there are many aspects buyers are faced with, including sanctions, Russian legislation. In addition, it is convenient for everyone to operate within the current patterns that have been developed over the years and successfully work today.

Q: Do you think that it is now reasonable for the exchange to move on with this project?

A: Today the deliverable futures contract has not aroused interest, but this is not the end of the story. Moreover, today we came up with a new mechanism, which is also aimed at promoting Urals.

Q: What is it?

A: With the experience with the deliverable futures contract, we realized that it did not work because there were no physical crude volumes. We were also unable to make a settlement contract because there was no base asset. So we should try to create a base asset and that is the physical price for physical crude barrels. What do we offer to our companies today? We invite them to try to hold crude oil export tenders through the exchange -- tenders for physical crude barrels. In fact, today companies such as Rosneft are already using the federal electronic platform TEK-Torg, our 100% subsidiary. There is a section for the sale of hydrocarbons specifically for tenders. Rosneft has already held several hundred tenders there. Those are mainly for petroleum products, petrochemicals, oils, and on the domestic market. However, they have not yet started selling crude in such a regimen.

Q: So, you offer to trade export volumes through the exchange?

A: We told our companies: you, on your side, leave all the usual crude oil tender procedures unchanged. We give you a tool that will allow you to collect an indication of interest using an electronic system, set some minimum price that seems acceptable, and give counterparties the opportunity -- again using the electronic system -- to trade increasing the price.

What is good about tenders? The company has no obligations. If a company doesn't like the price that buyers give, it

does not sell, and the tender is declared invalid. If a company likes the price, it means that it can choose the best bid and satisfy it. At the same time, we said that at least at the initial stage we will do it for all participants free of charge, so that no one would say that the price has worsened because we started working through the exchange. In addition, we will work in such a way that the company collects an indicative price level through the first indication, and then the trade goes up. We work exclusively to improve the price. If there is an improvement in price and the company likes it, it concludes a deal. If it doesn't, it does not conclude the deal, the tender is declared invalid, and it sells the crude through alternative channels.

Q: So companies lose nothing but can get a good price?

A: Exactly. At the same time, after receiving the price the whole process of signing contracts, payments, goes under bilateral agreements and within the framework of the existing patterns adopted by companies, without any involvement of the exchange.

Q: How do you see this process from a technical point of view?

A: Technologically, we want to divide this process into several stages. The first stage is an invitation to participate in tenders. It is sent to customers, but only to those whom the company is ready to accept as a customer. Even at this stage we have something to offer because we know many players and communicate with everyone, we can invite additional participants. This is the first stage where we can immediately help our companies expand the circle of potential buyers. The second stage, the actual tender, is an invitation to make an application. Next, we stop receiving applications. Let's say 25 companies were invited, 15 companies submitted their applications. We then select the top five from those 15. Then these top five companies bargain by improving the best price, which was shown in the first stage. This is exactly what is happening today, but we make those processes automatic.

Q: Why do Russian companies need this if they already have a well-structured and operational tender procedure?

A: This was the first thing we heard from companies when we came with our offer. So we told them that we are offering to electronically create competitive pressure from buyers. What is happening today? The buyer, when applying, does not know if there is someone else on the tender and what price other players offer. Of course, they can call each other, share information, but in fact no one knows exactly how many companies have applied for and at what price. And the exchange mechanism works when during a short online tender -- and we think that tenders will take 5-10 minutes -- you see how others set a price and you know if you are ready to bargain for a price. This is beneficial for both traders and exporters. Over time, we can standardize the conditions of the tender. Now we told companies that we will customize our services completely for each of you. If at the initial stage everyone wants to work with their individual nuances, then we will work individually and standardize tenders at later stages. But if companies decide that even at this initial stage it is more convenient for everyone to work according to the same rules, then it will be easier for us.

Q: Why would traders be interested?

A: They will also be interested because they will see both the number of participants and price indications and they will have a real opportunity to beat the competitors.

Q: But you haven't heard any support and desire to try from companies, have you?

A: This was initially the case, but before the May holidays there was a meeting held with Deputy Energy Minister Pavel Sorokin, where this issue was discussed seriously. The energy ministry reacted, in my opinion, very correctly. The deputy minister heard all the parties and recalled that since no one had removed the task of setting up a pricing system for Russian oil, it must be implemented. After that we had individual negotiations with several companies. In the end, two companies told us they wanted to try. We are now finalizing the software product in order to show it is live and to commence it.

Q: When can this happen?

A: We plan to hold the maiden pilot tender using our platform at the end of the third quarter or the beginning of the fourth quarter. We want to have this pilot tender and, with this example, show companies that the mechanism works, that it does not change anything globally in terms of their relations with customers and can really help them to improve prices. If they see it, the question of why it is necessary will disappear. What we offer is very similar to the auctions held by the Chicago CME Group for physical crude oil barrels. Gradually, this mechanism is spreading throughout the world because everyone wants to have a price linked to deals that have actually been concluded for physical volumes.

Q: How do those plans fit into your plans to promote Urals as a benchmark?

A: If such a mechanism works, we will be able to create a base asset for the settlement contract, and then for the deliverable contract. But we will have a base asset, namely the price of oil. From this point of view, spot tenders will certainly be more interesting to us because it will be possible to construct a forward curve on their basis. But if companies start any tenders -- long-term or medium-term -- on the stock exchange, we can get things moving. Over time you can add a lot of interesting things to this trading mechanism, but you just need to move the stone from the dead center so that it starts to roll.

Q: A little about gas. The exchange has long been proposing to lift the restrictions on Gazprom over the volume of exchange gas sales. Is there any success on the issue?

A: Yes, we have some news. In early June, the deputy prime minister of the Russian Federation, Dmitry Kozak, instructed Russia's Federal Antimonopoly Service, the energy ministry and the economic development ministry to submit to the government a revised version of the draft resolution providing for an increase in gas sales by Gazprom to 25 billion cubic meters per year and the abolition of gas sales parity. So we expect that next year the current restrictions for Gazprom will be lifted.