

# Russia makes fresh effort to take control of its oil price

Country's commodities exchange develops electronic platform to gather market data



*Russia has long relied on western pricing agencies to set the daily price of its oil © Reuters*

Nastassia Astrasheuskaya in Moscow NOVEMBER 15 2019

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Russia is hoping to stamp its authority on the oil market with a renewed effort to set the price of its crude exports.

The country's energy ministry has supported initiatives by St Petersburg International Mercantile Exchange, known as Spimex, to determine the price domestically. The exchange is preparing to experiment with online crude auctions, which are to be launched by the end of the year.

Currently, Russian exporters sell oil mostly to trading firms, often over the phone, and agencies get pricing estimates from market participants.

Under the new programme, which is echoed in other oil-producing nations, Spimex is planning to offer an electronic platform for buyers and sellers to transact. In return for its service, the exchange will get access to physical prices, allowing it to calculate an average based on real transactions rather than estimates.

The country has long relied on western pricing agencies such as Platts and Argus to set the daily price of its oil, but has sought greater autonomy in recent years as it has become one of the main voices in global oil markets. Moscow has a key role along with Riyadh in the Opec+ alliance of oil-producing nations that since 2016 has delivered production cuts to support prices.

Two previous similar initiatives from Spimex have flopped: firstly an attempt to sell RebcO (Russia Export Blend Crude Oil) futures at the New York exchange in 2006, and then a decade later an effort to launch a futures contract for the Urals blend, which failed to attract interest.

“We tried, we launched it, time went by, and we saw it didn’t fly,” said Spimex’s head, Alexei Rybnikov. “It didn’t fly because, first, everyone is used to the formula, and the transition creates price risks.”



*Alexei Rybnikov, Spimex’s chief, said another option that Spimex was considering is for Urals oil to be adopted in a wider Brent crude classification*

If the new project is successful, the country could better involve producers, rather than just traders, in calculating prices. Existing methods link Russia's main export blend, Urals, to Brent, with pricing agencies defining a discount, or more rarely premium, to apply. "Oil companies take almost no part in this. We want to allow Russian companies to take part in this," Mr Rybnikov said.

"Auctions . . . automate and simplify the pricing information and make it more accessible. They also create a competitive environment with potential for price improvement," he said.

The latest move is part of a wider trend of oil-producing nations seeking greater control over how their exports are priced. Mr Rybnikov said Spimex was working closely with Dubai Mercantile Exchange, which launched similar auctions in 2015.

Earlier this year, Chicago's exchange started auctioning US physical crude. Meanwhile, Abu Dhabi is aiming to create a new international benchmark to rival Brent and WTI, based on futures contracts.

Eventually, Spimex aims to extend its pricing regime to all of its oil sold on spot markets, including the ESPO blend sold to the Asia-Pacific region. Several oil companies, which are also Spimex's shareholders, are backing the move.

Nikolay Kiselev, deputy chief executive of producer Surgutneftegas, said it would "more actively look" at selling its oil through auctions, which he called a more "democratic" environment.

Another option that Spimex is considering is for Urals oil to be adopted in a wider Brent crude classification, Mr Rybnikov said. "I believe it is possible for Urals to somehow enter the basket, be it Brent+, or Brent-Urals," he said.