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Czech concerns over the future of the Druzhba oil pipeline

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During the first ten days of April oil supplies from the East to the Czech Republic fell by 31% in comparison with the amount logged by Russia. Transneft, which coordinates exports of Russian oil, announced on 9 April that Russian companies did not deliver any orders for the transfer of oil to the Czech Republic. However, the following day Transneft added that in the second quarter the supplies would be delivered according to the contract. The Czech state-owned company Mero, the owner of the Czech section of the Druzhba oil pipeline, declared it had no information about the causes of the disruptions in the oil supplies or their scheduling. In the Czech Republic this confusion over oil supplies provoked criticism aimed at the Czech government and Mero which under the legal regulations do not have access to details of contracts negotiated between oil supplies and owners of refineries. Over half (54%) of oil supplies to Czech refineries, held by the majority shareholder Unipetrol which is owned by Orlen, is transported through the Southern branch of the Druzhba oil pipeline (which runs through Slovakia), the remainder (46%) is carried from the West through the seaport in Trieste, by means of the TAL and IKL oil pipelines.

Commentary

- The most likely reason for the decrease in oil supplies to the Czech Republic is the reorientation of the main oil suppliers – Rosneft and Lukoil – towards transporting oil through the BTS-2 pipeline system. This system was opened at the end of March 2012 and is expected to export Russian oil while bypassing transit countries. It is likely that Russian companies are using this opportunity to sound out how owners of Czech refineries (Unipetrol, Eni, Shell) will react to decreased oil supplies in the context of the opened BTS-2 and how flexible they can be in accepting an increase in the oil price. It cannot be ruled out that this is also a signal of a possible renegotiation of supply conditions for other purchasers who receive supplies via the southern branch of the Druzhba pipeline.

- Currently, an alternative route of oil supplies (including Russian oil) from the West and stocks of oil for 90 days provide a level of security for the Czech Republic but the consequences of the launch of the fully operational BTS-2 (which is currently in test mode) remain a challenge for Prague. This situation is further complicated by the Russian-Austrian-Slovak plan to extend the Druzhba pipeline from Bratislava to the refinery in Schwechat near Vienna. The chances of the implementation of this project have increased after the Robert Fico-led government came to power in Slovakia. The

connection of the Austrian refinery to the Druzhba pipeline will enhance the probability of the use of the Slovak section of the pipeline. It will however create competition for refineries in the Czech Republic in having access to oil.

- The changes on the oil market have mobilised the Czech government to seek alternative routes of supplies. The idea promoted by Prague envisages the connection of the northern (crossing Poland) and southern sections of the Druzhba pipeline by the construction of the Leuna–Litvinov pipeline. The implementation of this project, supported also by Russian companies, would secure supplies should transports from one of the Druzhba branches be limited. However, doubts concerning this idea have been expressed by the French company Total, the owner of the refinery located in Leuna in the eastern part of Germany. The Hungarian company MOL has allied itself with Mero in criticising the Bratislava-Schwechat connection. MOL (the owner of Slovakia's Slovnaft), which is the rival of the Austrian company OMV, is championing the project of modernising the Adria oil pipeline which could carry oil from the coast of Croatia to the Czech Republic and Slovakia.