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The TAL is expanding: the Czech Republic is gaining independence from Russian oil supplies

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The shareholders of the Transalpine Pipeline (TAL), which runs through Italy, Austria and Germany (see map), decided on 30 November to increase the pipeline's capacity in response to a request from the Czech state-controlled company Mero, which owns and operates the Czech Republic's domestic oil pipelines. TAL starts in Trieste and, along with its branches (including IKL, which runs to the Czech Republic), it supplies crude oil to eight refineries in three countries, including two Czech ones. The pipeline accounts for 50% of oil supplies to the Czech Republic, 90% to Austria and 100% to southern Germany. It will not be necessary to modernise IKL as its current capacity is already sufficient to transport larger quantities of oil.

The decision to develop the pipeline needed the approval of all nine TAL shareholders. The largest of these are Austria's OMV with a 32% stake and the British-Dutch Shell with a 19% stake (Mero has 5%). The work is planned to start in January 2023 and is expected to be completed within 25 months. The cost of the investment is estimated at €50–65 million. When the capacity of the pipeline in the section that is of key importance for the Czech Republic is increased to 7–8 million tonnes, then Czech refineries (owned by PKN Orlen) will be able to receive an additional 4 million tonnes of oil annually via this route starting from the first quarter of 2025. Currently, the Czech Republic imports about half of its oil resources via this route (51% of 6.8 million tonnes in 2021). Most of the supplies originate from Azerbaijan and Kazakhstan. Furthermore, the share of oil supplies from the US is rising. However, the remaining half of the country's imports still comes from Russia; this is transported via the southern branch of the Druzhba oil pipeline.

Commentary

- The formal consent to increase the capacity of the TAL oil pipeline, which the Czech Republic has been seeking for years, will allow it to become fully independent of Russian oil by 2025. Most of TAL's shareholders were opposed to modernising the pipeline for many years, but Russia's invasion of Ukraine and the EU's imposition of sanctions on Russian oil have helped them change their minds. This was also possible due to the German government taking control of the German assets of Rosneft, which owns 11% of shares in the TAL consortium (for more information, see '*Germany: the state takes control of Rosneft's assets*'). The competent authorities in Bavaria granted the necessary permits in mid-July. The Czech Prime Minister Petr Fiala personally contacted the Minister-President of Bavaria to make sure that the permits would be granted. TAL leads primarily

to Austria and Germany, while the Czech Republic lies at the end of the route through one of TAL's branches. Therefore, considering the expected cut in supplies from Russia, the Czech Republic was concerned about a possible deficiency of crude oil if TAL's capacity was not increased. If Russia suspended oil supplies via the southern branch of Druzhba, both Czech refineries could operate at full capacity for just over half a year. In such a situation, one possible scenario would have involved holding talks with MOL to make up for the shortages with supplies via the Adria pipeline (running from Croatia to Hungary) through its connection with the oil pipelines in Slovakia and the Czech Republic. Czech refineries could then count on receiving an additional 1–1.5 million m^3 of oil annually.

- The Czech Republic's dependence on oil supplies via the Druzhba pipeline, and the concerns that these supplies might be cut, had a significant impact on Prague's response to the EU's proposals to impose sanctions following Russia's invasion of Ukraine. Although Fiala's centre-right government is generally supportive of the political and financial restrictions on the Kremlin, it reacted with some scepticism to the first proposals to impose restrictions on Russian oil imports presented by the European Commission in spring. Fiala argued then that they were "premature" and "insufficiently supportive" because they allegedly failed to take into account the specific situation of some countries (the Czech Republic, Slovakia and Hungary) which were unable to receive supplies by sea. Prague argued that the restrictions had to affect the Kremlin more than the EU members imposing them. In the course of the negotiations, the countries receiving oil via Druzhba's southern branch were granted an indefinite exemption from sanctions on oil supplies via this route (in practice until 2027, which the European Council's conclusions have set as the deadline for breaking the EU's dependence on Russian hydrocarbons), and were also covered by a derogation from the ban on imports of Russian petroleum products (in this case, the Czech Republic has an 18-month transitional period; this is 10 months longer than most other EU countries, where the ban will come into force on 5 February 2023).
- To halt imports of oil and petroleum products from Russia, apart from increasing the capacity of the TAL pipeline, it will be necessary to modernise the Czech refineries so that they are capable of processing larger quantities of lighter non-Russian oil. The Kralupy nad Vltavou refinery, which produces 900,000 tonnes of petrol and 1.2 million tonnes of diesel oil annually, is already exclusively processing oil from outside Russia. However, the Litvínov refinery, which produces 600,000 tonnes of petrol and 2.2 million tonnes of diesel oil, is still dependent on Russian supplies. Orlen Unipetrol, the Czech company controlled by Poland's PKN Orlen, has announced that it will invest in increasing domestic fuel production, especially diesel oil (20% of consumption is met by imports), as well as in adapting the refinery in Litvínov to process lighter oil from outside Russia; the total cost of these investments is estimated at Kč 30 billion (€1.2 billion). The company is seeking state support in this matter and, despite making record-high profits this year, is concerned about whether it will be able to finance previously unforeseen expenses, especially as starting from 2023 it has to pay windfall tax (see '*Niechciana konieczność: czeski podatek od nadzwyczajnych zysków*').
- The decision regarding TAL is another step towards increasing the Czech Republic's energy independence from Russia. In its policy statement as presented in January, Fiala's

government announced a ‘revision’ of its relations with the Kremlin, and since the Russian invasion of Ukraine, it has consistently pursued a policy of supporting Kyiv and the ‘de-Russification’ of the country’s energy mix. When the war broke out, the Czech Republic was fully dependent on imports of gas and nuclear fuel from Russia. The key decision to diversify the country’s gas sources lay in the reservation of capacity at the Dutch FSRU terminal in Eemshaven, which will allow to one third of demand for gas to be met from September this year to September 2027 (see ‘*Czechy z udziałem w holenderskim terminalu LNG EemsEnergyTerminal*’). LNG is also being contracted on an *ad hoc* basis through energy companies trading in gas (most often from Germany), and the tightening of regulations on the storage of gas reserves has helped to regain unused storage capacity reserved by Gazprom. Currently, the storage facilities in the Czech Republic are 94% full, which should cover 16% of annual gas demand. In the case of nuclear fuel, in April it was decided that starting from 2024, Rosatom’s subsidiary will be replaced by the American-Canadian Westinghouse and France’s Framatome (EDF group) as suppliers of fuel to one of the two nuclear power plants (Temelín).

Map. The infrastructure of oil supplies to the Czech Republic



Source: tal-oil.com.