

Ukrainian attacks on the Russian fuel sector

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In the second half of January, a series of fires were started in industrial facilities linked to the Russian oil and fuel sector, including the gas condensate processing plant located in the Baltic port of Ust-Luga (Leningrad oblast), which was damaged on the night of 20–21 January. The facility and the nearby terminal belong to Novatek, which produces and exports petroleum products, primarily naphtha, fuel oil and jet-kerosine. According to available data, the fire affected the LPG tanks and resulted in production being suspended. On the night of 24–25 January, a fire also broke out at the refinery in Tuapse (Krasnodar krai) by the Black Sea, causing damage to one of the installations. The plant is owned by Rosneft, and the corporation has not yet revealed the extent of the damage.

The fires at both facilities were preceded by Ukrainian drone strikes on Russian territory, including an attack on a fuel depot in Klintsy (Bryansk oblast). On 18 January, the Russian defence ministry announced the successful interception of unmanned aerial vehicles attacking an oil terminal in St. Petersburg. In the case of the Ust-Luga and Tuapse plants, the Russian authorities did not specify the direct cause of the fires. According to the Ukrainian news agency Ukrinform, both strikes were carried out by the Security Service of Ukraine (SBU), and the facilities had reportedly been targeted using drones.

Commentary

- Even though the Russian authorities have revealed scant information regarding the incidents, it appears that the owners of the affected infrastructure will find it quite challenging to deal with the damage in Ust-Luga and Tuapse. Novatek has announced the suspension of work at the entire facility, and has limited its operations to exporting gas condensate. As a result, it will no longer gain the profitable refining margin it used to have by selling finished petroleum products. Industry sources suggest that it may take two months to resume operations in Ust-Luga, and each day of downtime results in a loss of around \$2 million. The facility processed 6 million tonnes of gas condensate annually. 70% of its production being naphtha. Sales from the terminal accounted for a third of Russia's maritime exports of this product.
- The damaged installation at the Tuapse refinery is an integral element of the refinery complex's value chain. This suggests that the entire facility's operation may be halted to enable damage assessment and repair work. Last year it processed an average of 186,000 barrels of crude oil per day, producing gasoil and heating oil, among other things. Ninety percent of the refinery's production was exported, primarily to Turkey and Singapore, via the adjacent fuel terminal.

- Any escalation of attacks on refinery facilities, especially those with significant capacity earmarked for sale on the domestic market, could increase the risk of a fuel shortage in Russia. The country's fuel sector is grappling with internal challenges stemming from the industry's structure and its fiscal burdens, among other factors (for more, see '[Fanning the flames: crisis on the Russian fuel market](#)'). The January breakdown at the Lukoil refinery in Nizhny Novgorod, one of Russia's largest facilities of this kind, has led to a significant surge in gasoline prices on the stock market, and compelled the government to consider the option of imposing an export ban on this fuel due to concerns about shortages within Russia itself. This highlights the fragility of the balance between supply and demand on the Russian fuel market, which can be easily disrupted when the sector temporarily loses part of its refining capacity.
- The damage caused by Ukrainian drone attacks primarily affects a relatively small portion of refining capacity. However, it cannot be ruled out that the actual target of the strikes was infrastructure used for transshipment. Both of the plants affected are in close proximity to export terminals. Ust-Luga is home to one of Russia's key oil ports, which is connected to the Transneft pipeline system; the port suspended operations for several hours during the attack on Novatek's facility. A potential strike on export infrastructure would deal a significant blow to Russia's oil and fuel sales, and consequently to the state budget, because revenues from the oil and fuel sector are the primary source of Russia's foreign income. It is worth noting that attacks on export infrastructure will also affect global prices of crude oil and petroleum products. The mere existence of the risk of drone strikes is already contributing to rises in insurance and freight rates for tankers calling at Russian ports.