IRELAND ENERGY UPDATE

RUSSIAN OIL AND GAS

Implications of geopolitical energy decisions for Ireland

Irish Offshore Operators' Association

GLOBAL DEVELOPMENT

Russia is the third largest oil producing country in the world. The European Union depends heavily on imports of crude oil and oil products from Russia, with approximately 60% of Russian oil exports going to OECD countries in Europe and 20% going to China. In December 2021, Russia exported 5 million barrels per day (MM b/d) of crude oil and 2.7 MM b/d of oil products. The main crude oil export pipeline to Europe is the Druzhba pipeline system (750,000 b/d), the southern branch of which goes through Ukraine while the northern branch transits Belarus to Poland and Germany.

Russia currently provides approximately 20% of the crude oil for European refineries. It also provides a significant volume of oil products the Europe; 750,000 b/d of diesel was exported to Europe in 2021, meeting 10% of European diesel demand. If crude oil or oil product exports from Russia are curtailed, either through western sanctions or Russian retaliations, it would have a significant impact on EU countries, especially on transport and supply chains.

The EU has not imposed any formal sanctions on Russian oil or gas to date. As a number of EU member countries are heavily dependent on Russian energy, there does not appear to be any likely agreement in the near term on imposition of an embargo on Russian oil or gas. The EU's current position is that it will switch to alternative supplies and make Europe independent from Russian energy "well before 2030". Among other western powers, the USA (the world's largest oil producing country) is banning all Russian oil and gas imports and the UK (also a major oil producer) has stated that it will phase out Russian oil imports by the end of 2022.

It is unlikely that oil supplies to China will be impacted by any future western sanctions, while any decrease in supplies to the USA is likely to be met by an increase in indigenous USA oil production. In the event of cutbacks in Russian oil supplies, the bulk of any shortfall would be felt principally by European countries, some of whom have significant oil and oil products dependency on Russia.

The OPEC+ alliance (of which Russia is a member), and particularly Saudi Arabia and the UAE – the only producers with substantial spare capacity – have not shown any willingness increase production levels to date. However, IEA countries agreed to release two tranches from emergency oil stocks for use in order to moderate prices and ensure sufficient crude and oil product availability.

EFFECT ON IRELAND

Oil accounts for close to half of Ireland's primary energy requirement, with the transport sector particularly reliant on oil. Ireland imports all of its oil needs and is therefore very vulnerable to any interruptions in oil supply. The Whitegate oil refinery supplies 30-40% of Ireland's demand, with the remainder imported.

In 2020 Ireland imported 3.2% of our energy needs direct from Russia. This included 6.3% of our oil and oil products. However, within that overall figure, the dependence on Russia for specific fuels, such as diesel, is more significant. In addition, some of Ireland's imports of oil products probably originated in Russia prior to being refined in other countries. Russia was second only to the UK as the leading supplier of Ireland's oil products imported in the period 2005-2019. There is therefore both a direct and an indirect dependency on Russian oil. As other European countries move away from Russian energy sources, existing supplies to Ireland may divert to those countries, putting pressure on Ireland's energy supplies.

More than half of Ireland's petrol imports came from the UK in 2018, while 40% of the UK's oil product imports were from Russia. However, UK refinery output meets only 60% of UK diesel and kerosene (jet fuel and heating oil) demand. Therefore, in the event of the UK ceasing to take Russian oil imports and being unable to find alternative sources, there is a significant potential vulnerability exposure for Ireland for diesel and kerosene supplies in particular.

Ireland has some measure of cushion through strategic oil stocks. IEA Member countries, including Ireland, agreed two co-ordinated releases of strategic oil stocks to help ensure stable international energy markets. In Ireland's case (the releases were of refined oil products), the strategic oil stocks will expect to reduce from 90 to 85 days as a result of these two releases.

However, our direct or indirect reliance on Russian oil and products, together with a heavy reliance on the UK for oil product imports, places us in a potentially vulnerable position in the event of any interruption in Russian oil supplies in the near future. This needs to be addressed in Ireland's energy security planning.

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Gazprom Halting Supply

Russian has announced that it is cutting off gas supplies to Poland and to Bulgaria (both countries are EU members) with immediate effect as both countries failed to comply with the Russian demand for payment in rubles.

The move demonstrates that Russia is willing to follow through on its threat to cut supplies and this will raise fears within Europe that further cuts could follow.

Bulgaria has reliance of 80-90% on Russian gas and imports approximately 3 billion cubic metres per annum from Russia. Poland had a reliance of 46.4% on Russian gas imports in 2020 but this rose to 53% in Q1/2022. Poland imports just over 10 billion cubic metres of gas per annum from Russia. [By comparison, Ireland's gas usage is approximately 6 billion cubic metres per annum.]

The immediate effect has been a dramatic (c.25%) rise in short-term gas prices. If the shortfall is to be met by redistribution from European gas supplies this will require diversion of supplies or increases in gas production from other European countries, e.g., Norway, and/or increased LNG imports into Europe. Diversion of gas supplies could mean possible risks to some of Ireland's gas supply imports or further increases in prices.