



Russia, Russia, Russia: More Than Meets the Eye 7/6/2022

The President continues to blame **Russia, Russia, Russia** for the run up in gasoline prices. No, No, No. The industry has fallen into the trap of accepting that Russia is responsible for half of the price increase. Again, No, No, No.

Russia's invasion is responsible for much of the inflation we are experiencing, but not when it comes to gasoline price inflation. The invasion has seen sharp increases in fertilizer, food, wheat, metal, oil, seed, and neon prices. The latter has impacted chip supply. The loss of neon from the Ukraine has raised the price of batteries for EVs, phones, computers, and a whole host of other products, but again not gasoline.

Despite the fear of lost Russian exports, very little Russian oil has actually been taken off the market. Since February 24th, we've probably lost less than 1MMB/D on average. We lost more than that in the U.S., where production went from 13MMB/D in 2019 to an average of under 12MMB/D over that period.

The oil sales Russia lost to the West has been made up in sales to the East. China is now taking 2 MMB/D of discounted Russian oil and India's purchases are up nearly 50-fold to 1MMB/D. It is possible that Russia might have problems in selling much more in the East, but as of now they have hardly been impacted. Interestingly, we've lost as much if not more production from Nigeria and Libya this past month and the Saudis in June did not fully produce their quota. Exports fell below 7MMB/D.



The sharp run up in gasoline prices started before February 24th, and its continuation had almost nothing to do with Russia. We had not yet achieved the level of gasoline prices at that time that would bring down **demand to available supply**.

The run up in gasoline was due to three factors: low inventory, tight refining capacity, and an initial growth in demand. \$5/gal gasoline at least in the U.S. seems to be the level that has allowed demand to decline.

We can blame Russia for a lot that has gone wrong, but not the price spike in gasoline. The administration and media won't back down but we in the industry should know better and we need to get the word out.