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State to Buy Fuel on Commodity Bourses

By Irina Filatova

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NOVO-OGARYOVO, Moscow Region — Government ministries should start purchasing fuel on commodity exchanges, Prime Minister Vladimir Putin said Thursday, as a measure to prevent price increases.

"We need mechanisms that will protect consumers' interests. This, of course, includes development of exchange trading," Putin said at a Presidium meeting in his Novo-Ogaryovo residence.

State entities currently buy fuel from commercial suppliers or take from government reserves. The state must buy at least half the fuel it needs on the commodity exchange, said Deputy Prime Minister Igor Sechin, who oversees the energy sector.

Sechin said that last year none of the state agencies had contracts with the St. Petersburg commodity exchange, Russia's main trading venue for oil products.

At the same time, each domestic refinery must sell no less than 15 percent of the fuel it

produces on the exchange, he said.

"We've been talking about the need to develop exchange trading in different sectors for years, but the federal agencies themselves don't work with the exchanges," Putin said.

He ordered the Interior and Defense ministries, the biggest fuel consumers, to start buying on the commodity exchange, adding, however, that the issue concerns all other ministries as well.

Defense Minister Anatoly Serdyukov said the ministry was largely using fuel from the state reserves.

Head of the Federal Anti-Monopoly Service Igor Artemyev complained that fuel prices are decreasing at a lower pace than expected.

He told Putin that retail prices at filling stations owned by vertically integrated oil companies dropped by only four percent to five percent in the last week, although a reduction of 10 percent to 12 percent had been expected. Artemyev also said wholesale prices dropped by just half of what had been anticipated.

Last week, Putin ordered the watchdog to open an investigation into unfair fuel price hikes, after diesel prices at the factory gate rose more than 35 percent in December 2010 through January 2011 to an average of more than 28,000 rubles ($960) per ton.

Sechin said prices for diesel fuel had dropped by 2.30 rubles, while prices for the most popular sorts of gasoline, Ai-95 and Ai-92, went down by 1.08 rubles and 1.10 rubles, respectively.

He also said a working group — including representatives of the Energy and Economic Development ministries, the Federal Anti-Monopoly Service and oil companies — had been created to monitor fuel prices.

Oil companies are still not doing enough to reduce prices, although "there's a certain positive dynamic," Artemyev said.

Domestic oil companies are facing more than 15 billion rubles in fines for hiking fuel prices, including 4.7 billion rubles to be paid by Gazprom Neft, he said, adding that the money is already being transferred to the federal budget.

Putin stressed that the government had no intention "to put our oil companies in unbeneficial conditions."

"But the market prices must have an economic base," the prime minister said.

The government's participation in commodity trading is likely to stabilize demand, as domestic exchanges are currently facing a lack of consumers, said Konstantin Yuminov, an oil and gas analyst at Rye, Man & Gor Securities.

With the public sector buying, the number of potential customers will grow, which will result in increasing liquidity of the exchanges as well as in better transparency, he said, adding that airlines and the defense industry, as well as the housing and public utilities sector, will be

among the biggest buyers.

Prices for aviation kerosene have slumped to 19,000 rubles to 22,000 rubles per ton, from 24,000 rubles per ton late last year, which is expected to result in declining ticket prices from domestic carriers, said Deputy Prime Minister Sergei Ivanov. Fuel accounts for 30 to 35 percent of ticket prices, he said.

A number of carriers have already lowered prices, Artemyev said without specifying the companies' names.

Meanwhile, travelers seem unfazed by ticket prices, with passenger flow increasing by 26.2 percent last year, Ivanov said, adding that domestic airlines carried 57 million passengers in 2010.

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