

Turkish Straits and an Important Oil Price Benchmark: Urals

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Nearly 45,000 vessels transit the Turkish Straits, namely İstanbul and Çanakkale, each year, and transmit around 4% of the global crude oil and petroleum products trade. Being narrower than the straits of Hormuz and Suez, the Turkish Straits are subject to strong currents, sharp turns and variable weather conditions. Thus, the straits are one of the most congested straits in the world. In busy periods, the combined waiting time for tankers carrying crude oil and petroleum products to pass İstanbul and Çanakkale straits may be as long as 54 days. Delay due to congestions on the Turkish Straits is important for Mediterranean refineries as well as for the global oil and petroleum products flow. As of 2020, around 15% of total Russian crude oil exports sailed via Turkish straits annually. Russian Urals crude oil accounted for a 26% share of all crude oils passing the Turkish straits, second only to Kazakhstan's CPC crude with a share of around 67%.

Following the increase of light crude oil supply globally, due to the increased amount of US shale oil activity, and the increased demand of middle distillate products such as gas oils and kerosene, the importance of medium crude oils including Russian Urals crude oil has increased. Wlazlowski, Hagstromer and Giulietti (2011) note that even if Dubai blend, which is often taken as a benchmark, statistical evidences suggests that "*Russian Urals (Mediterranean landed price) [...]is, in spite of little public and media attention, third global price setter.*" After WTI and Brent, the "*Mediterranean Russian Urals is a very clear price setter in the [middle distillates] segment.*" 66.22% of total Urals crude supplied in the Mediterranean market is shipped from the Black Sea Port of Novorossiysk passing through the Turkish Straits. The empirical evidence provided in this paper suggests that as the waiting time in the İstanbul and Çanakkale Straits increases, then Urals price increases can fluctuate as much as 5.05% and 3.09%, respectively.

Thus, higher landed oil prices due to higher transportation cost as well as potential disruptions in supply due to Turkish straits congestions make the Urals crude oil less reliable to use as a crude oil benchmark. Russia would need to be open to potential scenarios to solve the increasing congestion in Turkish straits, such as the ongoing Kanal İstanbul or Samsun-Ceyhan pipeline projects that would theoretically shorten voyage times of oil between Black Sea and Mediterranean ports, as well as decreasing congestion times.

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