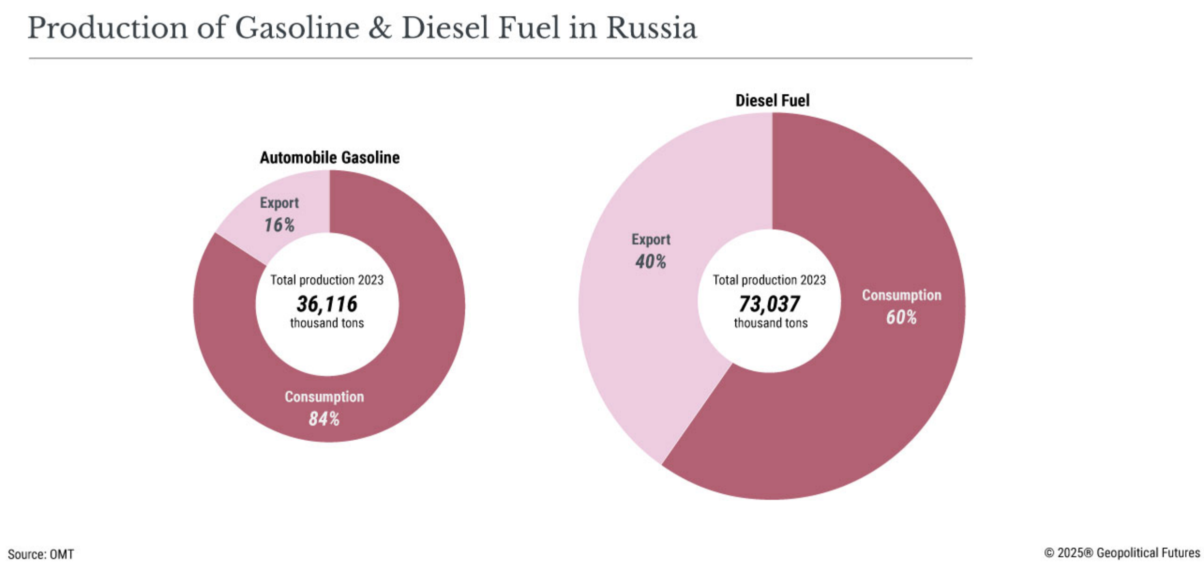
Russian Energy Is Fine For Now

by Ekaterina Zolotova - October 14, 2025

Throughout the war in Ukraine, Ukrainian forces have sought to strike Russia where it will hurt the most: critical energy infrastructure. Pipelines and refineries have been targeted for years in an attempt to disrupt logistics networks that supply the front and wreak economic havoc in Russia proper. Over the past few weeks, drone strikes against refineries have only intensified – the most recent of which took place in Bashkortostan, some 1,400 kilometers (870 miles) inside Russian territory. The ensuing shutdown led to fuel shortages and, naturally, price increases in certain regions of the country. By Oct. 13, prices for AI-92 gasoline and diesel on the St. Petersburg Exchange reached 74,167 rubles ($929) per ton and 73,551 rubles per ton, respectively. The former approached a record high in the exchange's history, while the latter was the highest since September 2023. Yet drone strikes are not even the primary cause of the shortages; they merely highlight structural problems in the oil industry that have existed for decades.

Despite oil's importance to the Russian economy – and despite Russia's having an independent fuel production and supply system – Moscow is no stranger to shortages. In fact, they are common in many oil-rich nations. The primary cause is an imbalance in the supply and demand of certain fuels. Proximity to a profitable export market and the concentration of primary consumption mean that the largest refineries are located primarily in the European part of Russia or near errant oil fields. This has resulted in uneven refinery distribution across the country. Local shortages, then, are usually caused by a sharp increase in demand in certain areas while production capacity remains unchanged. Every summer, demand in Russia's southern regions significantly exceeds supply, thanks to hot weather and the arrival of tourists. In Moscow, where social stability is particularly important, energy can be relatively easily supplied from any direction, but regions with more geographically complex logistical needs have few options, so they struggle to shift to different resources.

The cause of the supply-demand imbalance is the disproportionate production of petroleum products – namely, the preference to produce diesel, which yields much higher profit margins. None of the sanctions yet imposed on Russia has dethroned it as the world's largest supplier of diesel fuel, most of which went to Europe before the war but which is now oriented more toward Turkey and China. (Incidentally, a ban on diesel fuel exports is in effect until the end of 2025, but it applies only to those who are not direct producers.) Given the importance of maintaining its position in this sector, Russia is unlikely to abandon diesel production in favor of other types of gasoline, especially not when it is in such high demand for the war effort. However, the focus on diesel fuel means that the domestic gasoline market is effectively balancing on the edge of supply and demand, even as the demand for gasoline is constantly growing. This is a major problem because supply can't be ramped up quickly under the current sanctions.



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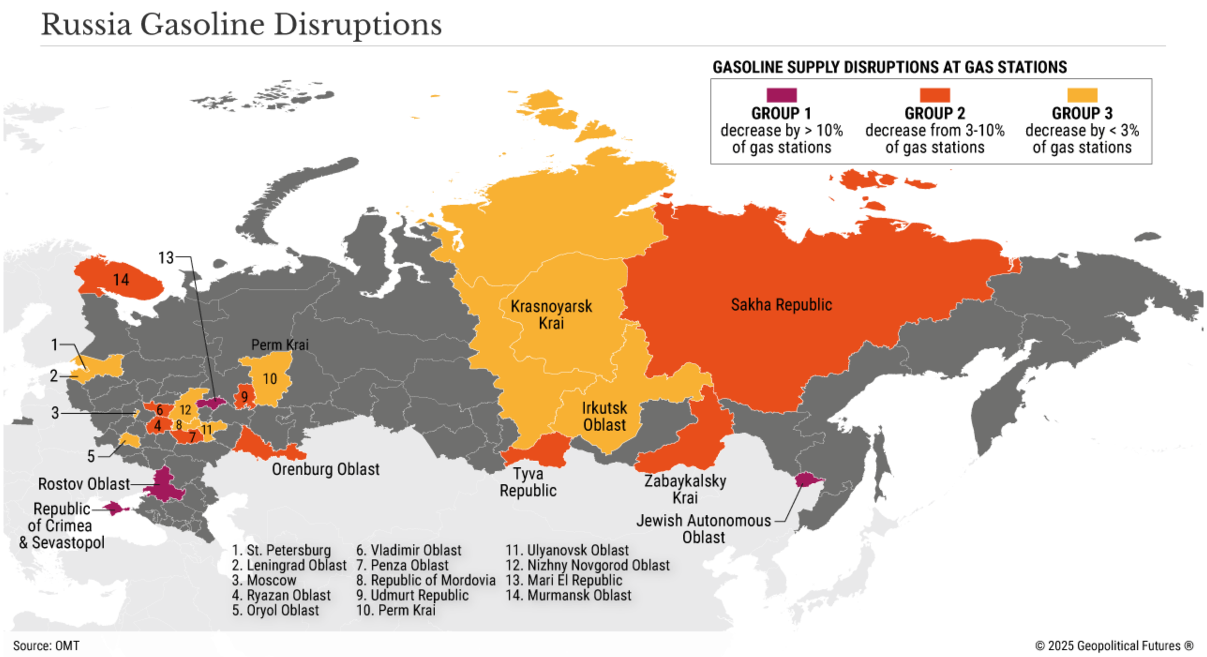
Meanwhile, because price plays such a significant role for producers – it effectively dictates what to produce and whom to supply – larger-scale crises also occur. In 2018, some 40 percent of Russia's regions experienced a severe shortage of diesel fuel when producers such as Gazprom and Rosneft, both of which help sustain the Russian government budget, figured out they could make more money selling at sky-high prices to Europe than to keep their products in the domestic market. This, in turn, jeopardized the domestic supply of other oil products.

Government policy also influences production volumes. Though fuel prices are generally not directly regulated by the state, they are so important to the budget – and thus to Russian citizens – that Moscow puts its hand on the scales through taxes, payments or policies meant to curb the price of fuel. Unlike private entities, the Kremlin isn't as strictly bound to corporate fiduciary responsibility when deciding what kinds of fuels are being produced and where they end up going.

In 2019, the government introduced what's known as a damping mechanism to smooth out the disparity between export and domestic fuel prices. Under this mechanism, the budget makes additional payments to oil companies that supply fuel to the domestic market in the event of high global prices, offsetting their losses from export restrictions. Conversely, it deducts part of the companies' revenue when it is more profitable for them to supply fuel to the domestic market. If wholesale fuel prices in Russia rise too much, however, and on average deviate monthly from the prices set in the tax code (by more than 10 percent for gasoline and 20 percent for diesel), the mechanism is not paid for that month. Thus, due to high exchange prices in August, oil companies were left without a gasoline damper. President Vladimir Putin recently imposed a moratorium (from October 2025 to May 2026) on zeroing out fuel damper payments. This means that these payments will be calculated without taking into account deviations in average wholesale prices for diesel fuel and 92-octane gasoline from their maximum levels. In other words, oil companies will no longer be deprived of state support, even if domestic wholesale fuel prices soar. Moscow expects this to goose oil companies' interests in increasing domestic demand.

Another way for the government to regulate the gasoline market is through export restrictions. Indeed, Moscow extended a temporary ban on gasoline exports until the end of 2025. The ban applies to all exporters, including direct producers, in an effort to stabilize the market. Importantly, it can also discourage companies from producing more and absorbing the costs of production without the prospect of compensation. Companies are reluctant to stockpile fuel in anticipation of the reopening of export flows, which limits their ability to respond to shortages and, in the face of limited supply, leads to higher prices for existing fuel in the country. In addition to logistical difficulties, high manufacturing prices have become a major factor in low gasoline sales. Many independent gas station owners prefer to temporarily halt sales in the hopes of a rapid price stabilization.

These structural problems make it even more difficult for Russia to cope with exogenous issues like Ukrainian drone attacks. Strikes on Russian refineries created another spike in gasoline prices as plants shut down for unscheduled maintenance. According to some estimates, the Ukrainian strikes have resulted in a 38 percent drop in total Russian refinery capacity, but these statistics are slightly misleading. First, refineries are rarely completely damaged, and they are usually repaired in time to bring operations back online. Second, there is permanently idle capacity. Russia's overall refinery capacity is about 327 million tons per year, but the country **processes only about 265 million tons**. Russian experts conclude that since the gasoline shortages caused by the drone attacks, the number of service stations providing gasoline has decreased by 360, or 2.6 percent. When calculated for the entire network, this represents approximately 1.6 percent of all service stations in Russia.



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Still, Ukrainian drone attacks are becoming more frequent and are occurring much farther into Russian territory. Though Moscow likely didn't expect such attacks to cause shortages, it can access gasoline imports from neighboring countries, and Belarusian facilities could increase production for export to Russia to address the temporary shortage. Meanwhile, Russia responded by strengthening air defenses of large cities that are unable to detect small targets flying at such low altitudes. In addition, energy companies purchased a massive amount of anti-drone systems last year. Anti-drone guns that cost as much as 1 million rubles are in high demand.

The bottom line is that despite its problems, the Russian economy is not about to collapse because of a single drone attack, nor will its energy industry be so disrupted as to cause major panic. Moscow still has the ability to buy products from other countries and has plenty of domestic reserves. Deputy Prime Minister Alexander Novak confirmed as much, saying recently that any logistical issues are being resolved and that Russian refineries have been able to increase fuel production. But the energy sector remains vulnerable in terms of security and geography, and it is still unbalanced, so it will always be sensitive to external events.

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