

## **RUSSIA SAYS IT MAY DOUBLE OIL EXPORTS THROUGH THE BALTIC SEA**

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by Vladimir Socor

In its latest challenge to Europe's energy security, Russia has confirmed the intention to increase its oil exports through the Baltic Pipeline System's (BPS) maritime terminals by up to 100%. The recent, not yet resolved, confrontation with Belarus over the terms of overland transit ostensibly triggered Russia's decision to redirect much of the oil export flow from the Belarus pipeline route toward the Baltic maritime route. However, such a switch -- particularly on the scale envisaged -- could directly interfere with the European agenda of diversification of oil supplies.

Russian President Vladimir Putin announced during his February 1 news conference that he has ordered the Russian government and the pipeline monopoly Transneft to urgently proceed with planning the capacity expansion of BPS and its Baltic port, Primorsk, by 50 million tons annually (Interfax, February 1). Putin apparently referred to the volume to be diverted from Belarus. The existing capacity of BPS and Primorsk is 75 million tons annually.

On February 5, Transneft president Semyon Vainshtok announced that the design capacity of the "renewed BPS" would be set at 150 million tons annually, including 50 million tons potentially to be diverted from Belarus. On that same date, Transneft's management adopted a declaration of intent to that effect. From February 9 through 15, Transneft delegates will present the project's outline in the oblasts affected -- Bryansk, Pskov, Novgorod, and Leningrad -- along the proposed route. This new line would circumvent Belarus, running slightly less than 1,000 kilometers from Unecha on the Russia-Belarus border to Primorsk.

According to Vainshtok, the project's costs have not yet been conclusively estimated and would in any case be "very high." Transneft proposes to borrow funds for this project, without requiring oil-producing companies to finance the BPS expansion, and may even allow the oil producers to use the new pipeline gratis. Moscow deems such investments necessary, Vainshtok said, in order to avoid the risks of overland transit through such unfriendly transit countries as Belarus (Interfax, February 5).

Indeed on that same day, Minsk announced that it has reintroduced transit payments for Russian oil en route to points West through the Druzhba pipelines in Belarus. Russian oil transit through Belarus is estimated at more than 70 million tons for 2006 (a slight decline from the preceding year). Minsk had introduced transit payments in early January 2007, but desisted on January 12 under Russian threats to interfere with oil supplies to Belarus itself.

Moscow's project to redirect the lion's share of that transit is undoubtedly designed in part to pressure Belarus. However, it seems clear that Russia has made a political commitment to a dramatic expansion of BPS and the Baltic maritime export route, given

Putin's statements and the Russian government's January 25 decision to that effect in Putin's presence (see EDM, January 31). Furthermore, substantial additional volumes of oil that do not presently go through Belarus would be rerouted to Primorsk, if BPS is expanded as apparently intended.

The project could obstruct the declared European agenda of supply diversification. Traditionally, a large part of Russian oil exports reach Europe overland by pipeline, while non-Russian oil is delivered by ocean-going tankers to European ports. Some of these port capacities may have to be reassigned to handling Russian oil, if major Russian oil volumes are switched from pipeline to tanker delivery by the shorter Baltic-North Sea route. Thus, the market share in Europe for Russian oil could increase against non-Russian suppliers. This could also be the result if European countries expand their maritime import terminals to receive the additional volumes of Russian oil.

Vainshtok hinted at this possibility and, apparently, intention: "If this [BPS expansion] project is fulfilled, European countries would have to expand their infrastructure in order to receive Russian oil. They wanted to seek alternative supply sources, but there are no overland routes for alternative supplies. Thus they will have to take [Russian] supplies by the maritime route" (Interfax, February 5).

As Leningrad oblast deputy governor Grigory Dvas disclosed on January 30, the project envisages deepening the port of Primorsk for tankers with at least a 200,000-ton capacity, double the capacity of tankers that Primorsk can presently accommodate. Moscow has yet to comment on the environmental and navigational-safety implications of turning the Baltic Sea and the straits leading to the North Sea into a congested oil route.

(Interfax, Belapan, February 4, 5; see EDM, January 11, 15, 24, 31)