Central Asia

Feb 6, 2004

Russian oil beats Bush to market
By John Helmer

MOSCOW - For a decade, Washington has backed the Turkish and Azerbaijani governments to steer the export of Caspian-region crude oil away from Russia. Moscow's latest riposte has been to ally with the Iranian oil industry and open up the shortest, cheapest and most lucrative oil route of all, southward out of the Caspian to Iran.

The economics of the southward route are the latest blow for the Bush administration as it tries to redraw the geography of the Caucasus on an anti-Russian map. But for oil exporters and shippers in the Caspian, US President George W Bush's jawboning looks to be as futile as King Canute telling the sea to roll backward.

Meanwhile, Russian oil producers and shippers say they are expecting the volume of crude oil and petroleum products shipped from the Russian Caspian port of Astrakhan to Iran to more than double this year. A spokesman for Volgotanker, the leading tanker operator in the Caspian, said it expects growth of its oil volume to jump 150 percent over the 2003 level of 800,000 tonnes.

Russian industry sources claim the expansion of the Iranian port of Neka, and the construction of a 120,000 barrels per day (bd) pipeline from Neka to Rey, is one of the new options for oil movement southward. The Russian shipments of Caspian oil are paid for by swap arrangements with Iranian oil shipped out of Persian Gulf ports. Enzeli, the only Iranian Caspian port able to receive deep-draft vessels, is also being considered for receiving oil aboard railcars shipped by ferry from the Russian Caspian port of Astrakhan. The new oil terminal at Ilyinka, on the Astrakhan shore, of Russia's second-largest oil firm, LUKoil, will reach transshipment capacity of 3 million tonnes annual capacity (60,000 bd) next year; this year capacity is 1 million tonnes (20,000 bd).

Costly crude conflicts
Early oil from Azerbaijan's newest offshore oilfields has been piped northwestward through the Russian pipeline system to Novorossiysk port, on the Black Sea, along with crude from the Caspian shoreline of Kazakhstan. But there have been frequent arguments with the Azeris over volumes and transit fees, and these have led to frequent oil stoppages. Transiting Azerbaijani oil across Georgia to Supsa port is a costly trickle by comparison.

In parallel, Turkey has been steadily tightening restrictions on tanker movement out of the Black Sea, through the Bosporus Straits. The latest rules ban lengthy and large-capacity tankers - those which are most cost-effective for charterers and cargo-

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owners - from moving through the straits at night. The delay adds to the transport charges, creating an expensive chokepoint that has multiplied the costs of routing oil through the Black Sea for US allies and Russia alike.

As new Caspian oilfields come onstream, and the volumes of crude lifted grow beyond the capacities of the Russian pipeline system to absorb, the US strategy has been to press hard to redirect these exports across land toward Turkey. The pipeline route chosen is known by its origin and destination as Baku-Tbilsi-Ceyhan (BTC). Its future was in doubt until Tuesday, when a syndicate of international lenders signed a landmark agreement committing US$2.6 billion in loans to the oil pipeline, removing the last major obstacle to completion of the controversial project. The Russian government has always understood that this pipeline was part of the broader US strategy to cut all links with Moscow of the former Soviet states in the Caucasus, building a new economic infrastructure that would dissuade the Caucasus group from ever renewing these ties. These efforts have proved to be a colossal boomerang.

A Ukrainian pipeline, designed to attract Caspian oil into Odessa port on the Black Sea and then pump it northward to Brody, and thence into Poland and other Central European destinations, has lain empty for almost a year. Despite US government prodding, even the major US oil companies in the Caspian cannot quite absorb the commercial disadvantages of the route. Nor can US allies in the Polish government overrule their colleagues with demands to buy this anti-Russian, but higher-priced, oil.

The Russian government, together with Russian oil exporters, has countered with a proposal for the Ukrainian government to reverse the oil flow in the pipeline, and pipe Russian crude southward to Odessa for tankering out of the Black Sea.

The conflict in Kiev over the strategic pros and cons of these alternative oil routes has damaged another US ally in the region. Late last year, the Ukrainian parliament voted to block the Adria pipeline reversal project. This was aimed at delivering Russian crude to the deepwater port of Omishalj in Croatia on the Adriatic Sea. The Ukrainian veto was retaliation by the anti-Russian oil lobby in Kiev for the failure of its Odessa-Brody project.

The irony of this outcome is that the Omishalj project was first proposed in 2002 and agreed on by Russia, Belarus, Ukraine, Slovakia, Hungary and Croatia as a way of dispatching Russian crude in large tankers to Bush constituents who own the refineries on the Texas coast of the United States. Initial capacity, according to the Omishalj plan, was 5 million tonnes per year, rising eventually to 15 million tonnes. The Ukrainian deputies justified their no-vote because, they said, it would be the final blow to the proposed Odessa-Brody pipeline, should the Druzhba line be filled up west of Ukraine.

"This is true," says Adam Landes, an oil analyst in Moscow. "But Odessa-Brody is doomed regardless. It offers no competitive advantage to potential Caspian shippers, or buyers of crude, and this is why it has been idle for two years now, since it was essentially completed. The longer Ukraine takes to face up to these rather obvious facts, the longer that this ill-fated pipeline will lie dormant."

Another US ally to be caught in the crossfire has been Latvia. As the anti-Russian pressure has mounted against Russian oil shipments in the south, Moscow accelerated the completion of a new oil outlet on the Gulf of Finland and Baltic Sea - Primorsk -

which opened two years ago.

Controlled by Transneft, the state pipeline agency, Primorsk receives its crude from the Baltic Pipeline System - a network of pipelines linking Russia's new Arctic oil wells and expanding northwest Siberian fields to the sea lanes to Western Europe's markets. Once the Primorsk outlet was established, the Russian government ordered Transneft to turn off the supply of oil to Ventspils in Latvia.

At one time the Soviet Union's northern gateway for oil exports, in 1990 Ventspils almost matched Novorossiysk in capacity and throughput. But no longer. The Latvians have appealed to Washington for help, but Moscow will not listen. The opening of Primorsk was the death knell for Ventspils.

The Americans responded in 2003 by pressing the Russian government to end Transneft's monopoly over pipelines and allow the Russian oil majors to build a pipeline of their own to Murmansk. That, Washington energy officials claimed, would open a new, commercially effective route for crude deliveries to US east-coast refineries. Transneft has responded by accelerating the expansion of the Baltic Pipeline System, while the Kremlin has started prosecutions of Yukos, the oil company that was closest to Washington. The speed of this pipeline-expansion effort will overtake the growth of Russian export volumes by 2005, Transneft officials have told Asia Times Online. The Murmansk project will wither, they believe, for lack of oil to ship.

Until Vladimir Putin became president in 2000, Russian oil policy was dictated by a corrupt alliance of the Russian oil producers and the US government. Putin's campaign against Yukos has put a stop to that. Even during the Boris Yeltsin period, however, Russian public policy was not to attack the BTC pipeline on strategic grounds. Rather, Russian tactics were to play for time, and wait for the economics of oil transportation to tell against the US plan. So long as crude-oil prices remained low, time encouraged delay in starting BTC. The US war against Iraq threatened the pipeline plan, too, by raising the prospect of a gusher of Iraqi crude on the market, cutting prices.

But now that Bush is proving that he cannot lift Iraqi oil, and prices remain firm for the foreseeable future, a new counter to BTC has been needed by Moscow to retain the upper hand - hence Russia's foray into Iran.