



Commissioning of ESPO Pipeline, A Long Stride Towards Diversifying Russia's Oil Market

The commissioning of phase one of the oil pipeline stretching from East Siberia to the Atlantic Ocean known as ESPO in the final months of 2009, implies Russia's firm resolve for gaining access to crude oil markets in East Asia. The pipeline which is 4800 kilometers long transfers a daily 300 thousand barrels of Russian crude from western Siberia to Kosmino port on the eastern coasts of the country in the neighborhood of East Asian nations such as China, South Korea and Japan. The capacity of this pipeline can be doubled as soon as the required pumping stations have been set up. Phase one of

this pipeline has been commissioned to transfer the crude oil produced in a number of oil fields in eastern Siberia to Skovorodino region. Phase two of this pipeline is expected to be commissioned in 2013. When completed, the pipeline will be able to transfer crude oil to final destination i.e. Kosmino port. For this purpose, loading capacity in the Kosmino port should be doubled to reach 600 thousand barrels per day. Before completion of phase two of the pipeline project, crude oil shall be shipped to Kosmino port via railway. Additionally, a 64 kilometer long oil pipeline with a capacity of 300 thousand barrels is under construction

by the Russian Transneft Company that transfers oil from Skovorodino to the Amor river banks along the borders of Russia and China. Another pipeline which is 992 kilometers in length and crosses the Chinese territory shall be constructed by the Chinese CNPC Company to transfer the Russian crude to Daqing refinery. These phases are expected to be commissioned by the winter of 2010.

Russia plans to diversify oil and gas markets and Russian officials firmly pursue this policy. Although the current volume of oil transferred to Kosmino port via this pipeline constitutes only ten percent of Russia's crude transfers to the ports located in high seas, this is the total amount of crude that finds its way into the Eastern markets via Russia. That is why Russia has invested heavily in the construction of this pipeline. The Russian government has foreseen 50% discount in export taxes and shipping charges in order to have a bigger share of the growing Eastern markets.

Russia's tendency towards the East and putting into operation of ESPO pipeline will seriously impact oil markets. Traditional purchasers of Russia's oil will no longer have access to part of Russia's oil exports. In the first five months



of this year, despite upward trend of Russian oil exports, the average daily oil exports of that country to the western markets fell by 126 thousand barrels per day. With the commissioning of ESPO pipeline, less crude is expected to be supplied to the satellites of Russia.

Other players in this scenario are the Middle East suppliers of crude oil to East Asia which cannot remain indifferent in the face of Russia's oil policies. They are likely to lose their share of the Eastern market. In the recent months, there have been released certain news linking Iran's storage of crude at sea and sale of ESPO's crude. Such news are illustrative of the fact that Russia is making the situation tighter for exporters of oil such as Iran. The market is currently suffering from surplus crude production capacity and at the same time major consumers of oil are experiencing economic downturn. That is synonymous with less demand for crude oil.

Under such hopeless circumstances, Russia is switching to the rewarding Eastern markets. The officials in charge of the Russian oil industry have attached priority to the oil market diversification policy and are prepared to follow up on that policy no matter what the cost may be. In fact, they plan to portray a bright perspective of their oil industry. Without a doubt, ESPO is viewed to be Russian's biggest stride in diversifying oil market.

China attaches similar degrees of significance to the construction of ESPO pipeline. Secure flow of energy is vital in China's economic growth. Under conditions when the Americans maintain their control over the Persian Gulf as well as southern China waterways, any alternative for the supply of oil will be given a warm welcome by the Chinese.

Moreover, emergence of an oil supply market in East Asia is a golden opportunity for the major importers of oil they cannot afford to miss. For many years, China, Japan and South Korea have nagged about higher crude prices in East Asia complaining they have been somehow discriminated. These states, in

coordination with one another have expressed interest in defining an independent market and crude index in East Asia in an attempt to bring under their control the price of crude oil destined for East, hence boosting their power to maneuver in the market. ■