

Varandey terminal is key to oil's future

By Bruce Stanley
The Associated Press

VARANDEY, Russia — Workers at the Arctic oil terminal of Varandey cling to their wind-blasted beach on the Barents Sea like castaways marooned on an alien shore. Deliverance from this remote outpost in Russia's Far North comes only when helicopters drop from the leaden skies to disgorge fresh engineers and technicians in monthly rotations.

Even the name implies isolation. Varandey translates as "Land's Edge" in the language of the indigenous people here in the Nenets Autonomous Republic, 1,786 km northeast of Moscow.

Yet the oil workers take pride in their contribution to exports of crude from Russia's burgeoning production, and activity at this tiny cluster of storage tanks and pumping stations resonates far across the Atlantic. American politicians and oil executives envision Russia as a strategic source of petroleum that will help reduce U.S. energy dependence on the turbulent Middle East.

Russia is eager to oblige, and Varandey is one sign of its potential to do so. The government hopes to increase Russia's market share for oil, the country's leading export, while at the same time cultivating closer political ties with Washington. The budding energy partnership between these two former Cold War foes led to an unprecedented meeting between the U.S. energy and commerce secretaries and their Russian counterparts last month in Houston.

It also has created lucrative opportunities for Russian produc-

FACTBOX	
LUKOIL	
Web site:	www.lukoil.com, www.lukoil.ru
RTS Index:	LKOH
• Russia's number 1 oil producer (1.5 mbpd)	
• 24 percent of Russian oil production	
• 18 percent of Russian oil refining	
• 2 percent of world oil output	
Crude oil reserves:	20,513.3 mmbbls
Natural gas reserves:	14,639.3 bcf
MAIN SHAREHOLDERS	
ING Bank (ADR and GDR)	- 56.2%
Garant SDK (nominee)	- 11.1%
Russian Ministry of State Property	- 7.6%
"Compania Proektoi Privatzitsii"	- 5.9%
MANAGEMENT	
President:	Vagit Alekperov
Chairman of the Board:	Valery Graifer
www.BusinessFinder.ru	

ers. Yukos, one of Russia's biggest oil companies, shipped 200,000 tons of crude to Houston in July, becoming the first Russian oil company to export crude directly to the United States. LUKoil, a rival of Yukos, controls the export terminal at Varandey, and it too has eyes for America.

"The U.S. is the largest market in the world. For us, it's target No. 1," said Leonid Fedoun, LUKoil's vice president for strategic development.

Varandey offers oceangoing oil tankers their only direct access to petroleum pumped from beneath the tundra of northernmost Russia. An icy wilderness in winter and a soggy bog in summer, the Barents coast forms the northern lip of the Timan-Pechora basin, a promising oil frontier in a country that already ranks as one of the world's largest producers of crude.



A LONE DERRICK on frozen tundra marks the site of an oil well in northern Russia near the Barents Sea export terminal of Varandey.

"All LUKoil's growth in production will occur in this particular region," Fedoun said in an interview at LUKoil's Moscow headquarters. "And the main thing is that Timan-Pechora gives us access to other markets, in particular the East Coast of the USA, as transport from here is cheaper than from the Persian Gulf and production costs are only a little higher."

Whether Russian oil physically reaches U.S. ports is actually of little importance, industry analysts say. Because crude is a globally traded commodity, what really matters is for Russian oil to enter the market somewhere, thereby boosting global supplies and helping to moderate prices for products such as gasoline and heating oil.

The bigger issue for the United States is energy security; America imports more than half its oil, and 25 percent of last year's shipments originated in the politically unstable Persian Gulf. Washington also is

eager to dilute the influence that the Organization of Petroleum Exporting Countries has on the global supply and price of crude.

Russia, which doesn't belong to OPEC, is home to about 10 percent of the world's proven oil and gas reserves. It was the top crude producer in October, pumping 7.91 million barrels a day, according to the International Energy Agency, a watchdog for oil importing nations. While OPEC members curb output to maximize prices, Russia has sharply increased its production since 1999.

George Beranek of The Petroleum Finance Co., a Washington consultancy, estimates Russia's daily output will accelerate this year by 600,000 barrels a day. Although production at older fields in western Siberia has peaked, companies are busy developing new fields in less accessible regions of the Far East, the Caspian Sea and the Arctic.

A major constraint on exports to the United States is Russia's lack of a

port large enough to handle 250,000-ton oil tankers, which would make such shipments more commercially attractive. To help ease these bottlenecks, LUKoil has joined with Yukos and two other Russian companies to interest investors in a multibillion-dollar project for enlarging the terminal in Murmansk, the only northern port that's ice-free year-round.

For now, Varandey is the sole outlet for crude piped to the Barents coast, and it only provides enough oil from two nearby fields to fill a single 20,000-ton tanker each month. These ice-resistant tankers carry the crude to Murmansk, a three-day westward journey, where they transfer it to larger vessels for delivery and sale in Rotterdam, the Netherlands.

LUKoil's subsidiary Varandey-NefteGaz is developing more wells around Varandey, and it foresees a surge in output. The company is weighing a plan to expand the terminal so that bigger ships can load crude and transport it via Murmansk or Europe to the United States, where LUKoil already owns the Getty chain of filling stations.

Despite its limited capacity, Varandey represents a minor triumph of logistics. Heavy ice close to shore for much of the year forces ships to load their oil 4 km out at sea, at a buoy connected to an underwater pipe running from the terminal.

"We can't let the economy of a big country like the USA become dependent on another region like the Middle East because of political or terrorist tendencies," said VarandeyNefteGaz director Igor Noriko. "If there were a critical situation in the Middle East, of course we could supply the USA." ■

Gazprom expands deal

Reuters

Russia's gas giant Gazprom said on Tuesday it planned to expand its gas purchase and export deal with energy-rich Kazakhstan after the success of their first joint gas sales to Britain earlier this year.

Gazprom Deputy Chairman Alexander Ryazanov told the business daily Vedomosti his company was ready to become more flexible, offer better prices and partly cede its export monopoly to other nations in the landlocked Caspian Sea.

"We hope to sign with Kazakhstan a long-term contract for seven billion cubic meters of gas a year," Ryazanov said. "It

is economically more profitable for Gazprom to export gas from the Central Asian countries than Russian gas. It is not liable to excise, the profitability is much higher." Ryazanov said Kazrogaz, a joint venture between Gazprom and Kazak-stan, set up in 2001, planned to export up to four bcm in 2003 and up to seven bcm in 2004. He declined to give the destination.

This year, Kazrogaz has sold one bcm of gas on Britain's spot market via the Interconnector pipeline running from the Belgian port of Zeebrugge to Bacton on the eastern English coast. Gazprom said in November it planned to boost spot gas sales in Britain and Belgium.

Arctic metals deposits no longer state secret

Reuters

Russia has decided to lift a veil of secrecy over nickel and cobalt reserves at two Arctic deposits developed by metals giant Norilsk Nickel which said on Tuesday an audit could be completed by early 2003.

A resolution published on the government's official Web site (www.government.gov.ru) on Tuesday put the Ministry of Natural Resources in charge of the disclosure procedure, but did not set a time frame for its implementation.

"We are currently examining possible candidates to perform the audit of the deposits, and we hope to have its results at the beginning of next year," Norilsk Deputy CEO Leonid Rozhetskii told Reuters.

He said Talnakh and Oktyabrskoye were Norilsk's largest deposits, which, apart from nickel and cobalt, contained other metals. The company also plans to disclose copper reserves in the two fields.

The government has only recently started to release data on non-ferrous metals, long a closely-guarded secret.

A government resolution issued in early April did not list output data on some non-ferrous metals, including nickel and cobalt, as state secret, but kept the lid on

information on reserves.

In September, Norilsk, for years one of the country's most secretive businesses, published for the first time in five years its base metals output figures. It said it had produced 223,000 metric tons of nickel and 4,600 metric tons of cobalt last year.

The world's largest producer of nickel and platinum group metal palladium, has declared a policy of boosting its openness and has been trying to persuade the government to scrap some legislation on state secrets. ■

Gazprom wants help

Russian natural gas monopoly Gazprom said it hoped that the European Union would propose ways to jointly finance a new pipeline route from Russia to Western Europe by next February.

Gazprom's chief executive Alexei Miller said the two sides would discuss financing and guarantee schemes to build the 3,000 km, \$5.7 billion pipeline.

The pipeline, to run along the floor of the Baltic Sea from Vyborg in northwest Russia to Germany and pump 30 billion cubic metres yearly, was long seen as costly and unrealistic. But Gazprom has pursued it with renewed interest. ■

Copper producers to cut back on exports

Reuters

Russian copper producers will keep cutting back exports to meet rising demand from domestic industry, a government official said.

"Production volumes will not grow significantly as refining facilities are working at nearly 100 percent capacity," Andrei Deineko, an official in charge of metals policy at the Industry Ministry, told Reuters. "Domestic output of copper products will be rising and cathode exports will be therefore declining. But the world community can stay calm, it does not have to fear that Russia will abandon the copper cathodes market instantly."

Russia accounts for around eight percent of world copper production. It exports some 66 percent of output and consumes the remaining 34 percent domestically, Deineko said, declining to provide exact production volumes. In September the country's largest copper producer Norilsk Nickel published its copper output tonnages for the first time since 1996. ■

Bonds sale postponed

Bloomberg

Russia has delayed until next year its first sale of foreign bonds since it defaulted on \$40 billion of Treasury debt in 1998.

"We won't place Eurobonds before the year's end," Finance Minister Alexei Kudrin told reporters during a break in a conference.

The government last month offered to exchange \$1.07 billion of Eurobonds for outstanding

Soviet-era commercial debts.

This would start its last major debt settlement and open the way for a possible return to Eurobond sales.

Russia, whose foreign debt payments peak next year at as much as \$17.9 billion, is selling LUKoil shares worth as much as \$830 million in a sale expected to conclude Wednesday.

The government also plans to sell 75 percent of oil producer Slavneft on Dec. 18 for at least \$1.7 billion. ■