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INDEPENDENT NEWS FROM RUSSIA

Pipeline to Carry 15% Of Output

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Prime Minister Vladimir Putin has signed off on a plan to build a $3.6 billion Arctic pipeline to new oil fields that could produce a sizable share of Russia's current output by the end of the decade.

State oil pipeline monopoly Transneft will complete the Zapolyarye-Purpe link by 2017, according to a government decree, Interfax reported Thursday. Putin signed the decree Nov. 18, the report said.

LUKoil, TNK-BP and Gazprom Neft will use the pipeline, whose capacity will be 45 million tons per year, to carry oil from fields in Yamal they plan to develop.

The fields could produce at least 74 million tons of oil by 2020, Transneft president Nikolai Tokarev said last month. That would be 15 percent of Russia's current output of about 500 million tons. The 500-kilometer pipeline will connect them to Russia's pipeline system, allowing exports both to Europe and Asia, he said.

Sergei Vakhrameyev, an oil analyst at Metropol, said the new Arctic oil would flow wherever it can sell at the best price — and that is now Asia.

Analysts at InvestCafe also gave the impression that there was no more likely destination than Asia, by way of the East Siberia-Pacific Ocean pipeline. The new fields will not only make the Asia-bound supply more reliable, but also will "support the quality of the exported oil," Grigory Birg and Vitaly Mikhalchuk wrote in a note to investors.

Tokarev said last month that construction could begin in November.

Transneft will fund the work alone, a change from last year's plan to share the investment with TNK-BP, Gazprom Neft and LUKoil.

Under the government decree, the Federal Tariffs Service will let Transneft recoup its rising expenses by increasing pipeline fees.

Another Transneft pipeline project, Baltic Pipeline System-2, is coming to an end next month. Designed to bypass Belarus in Europe-bound exports, the pipeline will initially be able to handle 30 million tons per year, filling the first 100,000-ton tanker by the end of this year, Tokarev said last week.

The project's second stage will expand the pipeline's capacity to 38 million tons a year by 2014.

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