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High Oil Pipeline Capacity Provides Flexibility

By The Moscow Times

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LONDON — Top oil producer Russia will soon have so much spare export pipeline capacity that it will be able to switch as much as a fifth of its output between customers in Asia and in Europe to grab the best prices, a major trader said.

Export capacity will exceed production levels by more than 2 million barrels per day by 2015, said Jonathan Kollek, senior vice president for trading at TNK-BP.

"It basically means that the highest yielding destinations will be chosen," he said.

This will give Russia some of the flexibility enjoyed by Saudi Arabia, the world's second-largest oil producer, which is the only country regarded as a swing producer that has spare production capacity and can ramp up output levels relatively quickly if markets need more oil.

Russia has always pumped at full capacity and Kollek said that was unlikely to change, but

by 2015 the country's export pipeline capacity will exceed production by 109 million tons a year (2.2 million bpd).

In comparison, 109 million tons of oil is enough to meet British oil demand for 15 months.

One project to expand Russia's export capacity is a new crude export outlet in Ust Luga in the Baltic, the launch of which has been postponed from last year due to construction problems.

It is now scheduled to export the first cargo in February, and Kollek said it should already allow producers to divert oil from less attractive destinations such as the Black Sea.

"It is a material uplift in value for producers if Transneft can operate the terminal in a fair and transparent way," he said Tuesday.

To sustain production at current levels of above 10 million bpd, Russia needs to further adjust taxation and limit government interference in business, Kollek said.

"If you don't do this, Russia won't be No. 1 anymore. Under this scenario Russia loses income, there will be social unrest," he said.

Russia reshaped its tax system last year to encourage crude output and exports by lightening the burden that captures over 90 cents of every $1 increase in the price of exported crude.

The new system gave a new lease on life to mature fields in western Siberia by cutting the marginal rate of crude export duty to 60 percent from 65 percent.

Kollek said that should be reduced in the future to 55 percent as production from mature fields in western Siberia was declining fast, having amounted to 300,000 bpd in 2010 alone.

Kollek also said he was enthusiastic about an idea of building a large new terminal in the port of Rotterdam to help trade in Russia's main crude oil become more liquid, launch paper trade for Urals and potentially turn the grade into a benchmark.

Russian investment group Summa Capital and a branch of oil trading giant Vitol, VTTI, will invest $1 billion in building a new oil terminal.

"The idea is positive and a hub could be created which would lead to Urals becoming a benchmark, provided it is transparent and there is no government intervention," said Kollek adding it would be wrong for Transneft to become a stakeholder in the project.

"All Russia has to do is to guarantee stable flows to [its main Baltic Sea port of] Primorsk," he said.

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