

Transneft Opens ESPO Pipeline

By [The Moscow Times](#)

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Transneft started the second branch of the East Siberia-Pacific Ocean pipeline, which will allow the Russian pipeline operator to boost the system's capacity.

The pipeline's second branch is known as ESPO-2.

Speaking via a video feed from the opening event in Khabarovsk in the Far East on Tuesday, President Vladimir Putin said the project "will seriously broaden the infrastructural potential of Russia's far eastern regions," Interfax reported.

ESPO will ship oil to Japan, China, the United States, South Korea, the Philippines, Singapore and Taiwan, Putin said.

It took six years and more than \$25 billion for Transneft to build the ESPO link to the port of Kozmino, which had formally relied on a rail link.

By completing the 4,200-kilometer line, Russia has created powerful leverage for oil-flow

switches from east to west and visa versa, sending a warning to the European Union, which is heavily dependent on energy supplies coming from its former Cold War adversary.

Transneft said Japan bought almost a third of ESPO exports this year, followed by China with 24 percent and the United States with 22 percent.

Putin has urged oil and gas companies to increase their share in lucrative Asian energy markets.

Analysts say Europe's fear of less Russian oil is justified, although exporting companies will choose eastern or western routes on the basis of profitability.

"Of course, there is a risk of oil-flow cuts to Europe. And ESPO blend sells with a premium to Dubai, so that speaks in favor of the eastern route," said Alexander Kornilov, a senior analyst for Alfa Bank, citing the Asian market benchmark grade.

A first-quarter loading schedule shows that Russia will cut Europe-bound oil supplies. The biggest decline, 20 percent, is expected to be at the Baltic port of Ust-Luga.

In 2009, Russia started the first stage of the ESPO link, to Skovorodino, on the Russia-China border. And in January 2011, it started pipeline deliveries at 300,000 barrels per day to China, a customer with a growing appetite.

Russia is the world's largest oil producer, at around 10.5 million barrels of oil per day, trumping Saudi Arabia. The kingdom holds back some output to prop up crude prices.

Most of Russia's 50,000-kilometer oil pipeline network is concentrated in west Siberia and heads toward Europe, the country's largest customer to date.

Moscow has been steadily diversifying its oil exports by shifting away from the Druzhba pipeline, built in the 1960s to supply the Soviet Union's Eastern European allies.

It built the Ust-Luga terminal this year and has drastically reduced flows via Druzhba, forcing some European refineries to seek other options.

But with the ESPO pipeline in place, analysts have questioned Russia's ability to stick to its commitment of keeping steady supplies to both east and west.

"It would be quite a challenge for Russia to fill the pipeline. And some of the east Siberian fields have not been performing as expected," said Julius Walker, an energy market strategist at UBS in New York.

The Vankor oil field, controlled by Rosneft, has been the main contributor of oil to the pipeline. Vankor's production is expected to increase to 500,000 barrels per day next year.

Russia has also offered tax relief for some east Siberian fields. The offer includes a proposal to scrap the export duty, the single largest tax item for oil companies.

According to VTB Capital projections, eastern Siberian fields will produce 45 million tons by 2020, up from 15 million tons this year.

A gas pipeline blast followed by a mild earthquake struck Sochi, host of the 2014 Winter Olympics, a local government spokeswoman said Wednesday.

Irina Gogoleva, of the Emergency Situations Ministry, said no one was hurt and there was no apparent damage to the city's infrastructure after a magnitude-5.2 earthquake.

"Ministry workers scoured the city districts, bridges and electrical cables. There was no damage," Gogoleva said. She adding that the epicenter of the quake was in the Black Sea about 150 kilometers from Sochi.

In an unrelated incident, a gas pipeline that feeds a local power station exploded a couple of hours before the quake.

Gogoleva said that the power plant had switched to fuel oil and that the city was receiving electrical power. She said the cause of the blast was unknown.

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