Russian Oil Flows to China at Europe's Expense

By The Moscow Times

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Lake Xi Hu in China, which is increasingly soaking up Russian oil exports once destined for the European market.

Russia is steeply ramping up oil deliveries to China, with Asia now importing almost a fifth of oil exports from the world's largest crude producer in a strategic shift meant by the Kremlin to end reliance on weak and saturated European markets.

Russia will increase oil supplies to China by 13 percent in July to September from the previous three months, a shipping schedule obtained showed.

Together with supplies to the Pacific port of Kozmino, Russia will export about 750,000 barrels per day to Asia, or 17 percent of its overall exports of 4.4 million barrels per day.

"Russia has been losing its interest in Europe, where oil consumption is stagnant. It's looking increasingly to the East," Valery Nesterov, analyst from Sberbank CIB, said.

The speed of changes in export patterns has aroused widespread surprise, as it took Russia only five years to reroute huge volumes, previously destined for European markets.

Russia first started supplying China by railway and then by a new pipeline while opening a Pacific port, Kozmino, in 2009.

The projects cost pipeline monopoly Transneft dozens of billions of dollars and spurred criticism from some private Russian producers, who said they all had to pay higher tariffs to Transneft so it could build the pipelines.

Private producers also said they benefited little from the projects as the main volumes supplied to China came from state oil major Rosneft.

The Kremlin oil major raised tens of billions of dollars from Beijing by pre-selling its oil under long-term deals in order to finance its growth and acquisition drive.

The shift in export route has also led to a gradual strengthening of Russian oil prices for European consumers, who had been used for decades to buying Russia's export blend Urals at a steep discount to benchmark Brent prices.

Over the past few years, Urals has repeatedly traded at a premium to Brent, including on Tuesday, as traders said Russian supplies to Europe looked thin, especially to northern countries from Russia's Baltic ports.

"That is a tight schedule for the Baltic again ... It is the Baltic which has to compensate for higher deliveries to China," a trader with an oil major said.

Urals trading at a premium to Brent means refiners have to pay heavily for the previously cheap oil, making life harder for them at a time of small profits, known in the industry jargon as refining margins.

"Next year, and in 2015, it will get only tighter as supplies to China are set to rise," the trader with a major said.

Rosneft agreed in March to triple supplies to China. It did not specify over what period, but it plans to increase deliveries by 800,000 tons this year on top of the 15 million tons (300,000 barrels per day) it already supplies annually.

Traders expect the volumes for China to rise to 17 million in 2014 and by 2015 they could amount to as much as 20 million tons, on par with Germany, the top individual consumer of Russian oil to date.

Urals crude exports via the Baltic Sea port of Primorsk are set to fall by 7.4 percent compared with the second quarter to 14.7 million tons, the schedule, obtained on Tuesday, showed.

Urals exports from the Baltic Sea port of Ust-Luga will decline by 6.4 percent to 7 million tons, while shipments from the Black Sea port of Novorossiisk will increase 3.4 percent to 9.95 million tons.

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