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## The Light at the End of the Pipe.

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// Russia builds an oil refinery in Armenia to annoy the United States.

Gazprom Neft confirmed yesterday that it is considering building an oil refinery in Armenia. Kommersant has learned that the proposed plant would have a capacity of 7 million tons of oil per year and be located on the border with Iran. The refinery would cost a minimum of \$1.7 billion, not counting transportation infrastructure, which would cost an additional \$1 billion. Industry analysts say that the project is senseless from an economic point of view and attribute interest in it to political considerations. An oil refinery in Armenia would indeed be a political undertaking and provide the participants with political dividends.

Gazprom Neft officially confirmed for Kommersant that it is considering the project, which was proposed by Armenian President Robert Kocharyan and approved by Russian authorities. The company declined to comment on the details of the project, saying that a final decision has yet to be made and 'discussion is at the initial stages.'

Sources say that the Armenians originally suggested a refinery with a capacity of 3-4 million tons per year. The Russians, however, responded by suggesting that the capacity be doubled, although Armenia's consumption of petroleum products does not top 250,000 tons a year. The location of the plant, on the Armenian-Iranian border near Megri, explains the excess. Oil would be received by the plant from Iran through a 200-km. pipeline from Tabriz, where a refinery already exists. Petroleum products would be transported back to Iran by train, on a line that, like the pipeline from Tabriz, does not yet exist.

A well-informed Kommersant source said that the project was discussed with Gazprom Neft, Industry and Energy Minister Viktor Khristenko and Russian Railways head Vladimir Yakunin during Kocharyan's visit to Moscow. (Russian Railways would have to build a rail line to the refinery.) Only Gazprom Neft would confirm the idea though. The Industry and Energy Ministry declined to comment on the meeting. Yakunin told Kommersant that that he met with the Armenian president and discussed the construction of a rail line between the countries, but that no refinery was mentioned. Kocharyan's press service said that the president's visit to Russia was 'of a private nature.'

Experts say that there is no economic basis for the proposed refinery. Alfa Bank's Andrey Fedotov estimated that a refinery with that capacity would cost 'a minimum of \$1.7 billion.' Experts also note that transportation of the large equipment necessary for the plant would account for much of its cost. The site's distance from a seaport could double the price of its construction. Troika Dialog analyst Valery Nesterov estimates that a pipeline in that terrain would cost about \$400 million. The cost of the rail line was calculated earlier. The Armenian Ministry of Transportation suggested that a line from Marand (near Tabriz) to Jermuk and Megri would cost \$700-1000 million. Thus the total cost of the project would be no less than \$2.8 billion.

Mikhail Perfilov, business development director of Fearnleys oil shipping company noted that 'Armenia has no oil of its own and no oil trunk lines. So crude oil imports will be expensive and transportation costs will make export of the petroleum products more expensive.' Perfilov said the Tabriz and Tehran oil refineries in northern Iran buy their raw materials in Kazakhstan,

Turkmenistan and Russia. An oil company source said that high transportation costs would make the refinery's products uncompetitive with Iranian products. It can be suggested, therefore, that the Armenian refinery is a political project.

Armenia's interest in the refinery is obvious. After relations between Moscow and Tbilisi deteriorated and Georgia adopted a pro-NATO and pro-U.S. stance, Armenia was threatened with being cut off from Russia, its main strategic partner and sponsor. Shipments from Russia to Armenia could become problematic and Armenia could find itself facing its enemy Azerbaijan alone. The refinery would allow Yerevan to preserve some of its current status in the region.

The refinery could be beneficial to Iran in case the U.S. decides to undertake military action against Tehran. Experts suggest that the Americans would most likely hit strategic objects in Iran with missiles, destroying all Iranian refineries within days. The Americans would not hit a partially Russian-owned refinery in Armenia. Russia is, of course, risking new upheaval in its relations with the U.S., although there would be no formal grounds for objection.

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