
Analysis : Eye on Novorossiisk

By John C.K. Daly
UPI - 20/12/2007

Novorossiisk, Russia's prime export terminus on the Black Sea, is attracting considerable interest from Western investors seeking a slice of the Russian energy pie.

In a world of record-high energy prices, Novorossiisk is a crown jewel. For the period January-September 2007, the Novorossiisk Commercial Sea Port announced its unaudited consolidated financial data, during which time the company's revenue grew by an astounding 76.5 percent, totaling \$332 million, up from 2006's corresponding period of \$188.1 million. Equally impressive, Novorossiisk Commercial Sea Port's EBITDA during the same period increased by 90.8 percent up to \$167.0 million, up from 2006's corresponding EBITDA figure of \$87.5 million.

Even more impressively, Novorossiisk Commercial Sea Port's increased profits come at a time when the port's cargo turnover fell 3.8 percent to 58.7 million tons in January-September 2007 compared with the same period in 2006.

In Krasnodar region, Novorossiisk is Russia's main port on the Black Sea, nestled along the shore of Tsemess Bay, which unlike most Russian ports is ice-free year-round. Novorossiisk Commercial Sea Port's market capitalization is currently \$1.1 billion; the terminus handles southern Russian trade with Asia, the Middle East, Africa, the Mediterranean basin and Latin America. In terms of cargo tonnage, Russian Black Sea ports handle more than a third of Russia's maritime exports.

Behind this prosperity is oil. It is the busiest oil port in the Black Sea and the terminus of the Caspian Pipeline Consortium's pipeline from Kazakhstan's massive Tengiz oil field.

Good as the last year's revenues have been, Novorossiisk's prospects look ever brighter, as Western investment concerns increasingly realize the port's potential. Last month the New York investment firm Bear Stearns included Novorossiisk Commercial Sea Port in its "Focus List" along with other Russian concerns Gazprom, Sberbank, Evraz, Mobile TeleSystems and Severstal-auto.

According to the Bear Stearns Web site, "Securities on the Focus List are selected by the Bear Stearns Focus List Committee from a universe of U.S. and foreign stocks that are rated 'Buy' or 'Attractive' by the Bear Stearns Equity Research Department."

Last month Novorossiisk Commercial Sea Port, largely owned by a group of Russian businessmen while Novorossiisk's government controls a minority 20 percent stake, raised about \$1 billion in a London-based IPO share float. The capital will be used in a program similar to a government project for the accelerated expansion of Russia's Baltic ports. The port modernization program is scheduled to double Novorossiisk Commercial Sea Port's existing export handling capacities. Following the Nov. 2 sale of global depository receipts for \$19.20, each Novorossiisk Commercial Sea Port's market value was determined to be \$4.9 billion.

Following the Realtors' dictum "location, location, location," Novorossiisk enjoys many geographical advantages over its Russian Federation rivals for an increasing slice of Russia's international trade. Despite being limited by the fact that its sole maritime egress is the Turkish Straits to the Mediterranean, under the 1936 Montreux Convention Turkey is prohibited from

charging transit tariffs. Russia's only other significant maritime ports are either heavily congested (St. Petersburg) or distant (Siberia's Far Eastern Maritime province Vladivostok port.) Novorossiisk enjoys the additional advantage of strong pressure from Moscow on shippers to route their cargo directly into Russian facilities rather than using foreign transit facilities in the Baltic or Black Sea ports such as Ukraine's Ilichevsk or Romania's Constantza.

Novorossiisk Commercial Sea Port is responsible for a fifth of all Russian cargo shipments.

Novorossiisk's rise to post-Soviet prosperity has not occurred without some bumps along the way. Following the December 1991 collapse of the Soviet Union, Novorossiisk dominated Azerbaijan's sole export route, the Baku-Novorossiisk oil pipeline. Outraged at Transneft's extortionate transit charges, Baku spent years seeking alternatives, which occurred first when in 1999 the 550-mile Baku-Supsa pipeline opened. For Baku, the line's advantage was that Georgia charged a transit fee of \$3 per metric ton versus Transneft's \$15 per ton. A secondary advantage was that as Transneft lacked the capacity to "batch-ship" Azeri oil, it was admixed with lower-grade western Siberian Urals crude, resulting in a lower market price. As Baku-Supsa carried only Azeri crude, its market price was higher, but the line's capacity was limited to 100,000 barrels per day. Further relief came last year for Azerbaijan with the opening of the \$3.6 billion, 1,092-mile, million-barrel-per-day Baku-Tbilisi-Ceyhan pipeline, effectively ending Moscow's monopoly over Azeri oil exports.

Besides Western Siberian and Azeri hydrocarbon exports, Novorossiisk had another ace up its sleeve, however -- Kazakh oil. In November 2001 the first stage of the multinational Caspian Pipeline Consortium's \$700 million, 932-mile pipeline opened, transporting 700,000 bpd of oil from Kazakhstan's massive Tengiz fields. As with Azerbaijan, Moscow played hardball with the Kazakhs over the line and transit fees, and hit Astana with the additional fee of a massively expensive sulfur extraction plant designed to remove mercaptans from Tengiz hydrocarbons.

As the Kazakhs are effectively stymied for the foreseeable future about developing alternatives, the CPC is slated for upgrades to produce a projected capacity of about 1.4 million bpd by 2015. Since Novorossiisk has both a captive client base and increased international investment interest, the port's future seems bright indeed.
