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# Russian oil finds a new route to Europe.

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RIA Novosti

26/3/2007

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Bulgaria, Greece and Russia have agreed to build a new oil pipeline from Burgas on Bulgaria's Black Sea coast to Alexandroupolis on Greece's Mediterranean coast. Russia will hold a 51% stake in the company that will build the pipeline, and its partners will have equal shares of the rest.

They will also receive transit fees for oil pumping. Russia, however, will get the bulk of economic revenues from the project. End consumers of Russian oil in Europe will also benefit. After the new delivery route is completed, they will be less dependent on the unpredictable policies of transit states.

The new route will be as follows: oil from Russian and Kazakh fields in the Caspian Sea will be pumped by the pipelines of the Caspian Pipeline Consortium to the Russian port of Novorossiisk, shipped by tankers to Burgas and then pumped to Greece, bypassing the Turkish straits of Bosphorus and Dardanelles. >From Greece, Caspian oil will be delivered to Western European consumers by sea, bypassing any middlemen.

The new pipeline has an important environmental advantage. Andris Piebalgs, the EU's energy commissioner, has said that it will reduce tanker shipments through the Turkish straits, therefore reducing the risk of polluting the sea in the event of a tanker accident. Because of that, the European Commission has declared the pipeline to be in the interests of all of Europe.

The pipeline will be just 285 km long, and its projected capacity is 35 million metric tons a year. The cost of its construction is estimated at ?-700 million to ?-1 billion. Three pumping stations and an oil refinery will be built along the route. As a result, oil will be pumped from one end of the pipeline to the other in just two days.

Russian officials expect the project to be carried out fast. "We expect that the international project-management company will be set up in the first half of 2007," said Russian Industry and Energy Minister Viktor Khristenko at the signing of the agreement. "Soon it will be able to complete the project's feasibility study and work to sign an agreement with Bulgaria and Greece on oil transit between the company and these countries." Sergei Grigoryev, vice president of the Russian state-owned pipeline monopoly Transneft, said that the pipeline could go on stream in mid-2009.

Russian oil majors Rosneft, Gazprom Neft, TNK-BP and Transneft will dominate the pipeline-management consortium. They will also contribute the bulk of investment in the project. Russian officials say that Burgas-Alexandroupolis will in fact become part of the Russian pipeline system that will bring Russian and Caspian oil to Western European markets.

The pipeline will only be put into operation in two years, but experts are already considering it a real and very attractive alternative to the existing and potential routes of oil transportation from Central Asia to Europe. Sabit Bagirov, head of the Fund for Assistance to the Development of Azerbaijan's Entrepreneurship and Market Economy and

former president of the country's state-owned oil company, said that the new route would be a rival to the BTC pipeline, which goes from Baku (Azerbaijan) to Tbilisi (Georgia) and then to Ceyhan (Turkey). However, which way is better will depend on the terms offered by pipeline owners and the governments of transit countries. "There is no doubt that exporters will prefer to deliver oil to the European market through a pipeline that offers better fees and supply security, as well as a good operation and timely delivery," he said. Fees will also depend on the length of the pipeline, its capacity and cost of construction and maintenance.

The 1,774-km-long BTC was put into operation in May 2005. It has eight pumping stations, and its transportation period is ten days. The pipeline's capacity is 50 million metric tons a year. Its cost was first estimated at \$2.2 billion, but ended up being \$3 billion. It is quite possible that Burgas-Alexandroupolis will divert the bulk of oil from the Tengiz field in Kazakhstan, which could otherwise be transported by the BTC if the Caspian Pipeline Consortium decided to expand oil production. At present, the Tengizchevroil consortium, led by the United States' ChevronTexaco, pumps almost all the oil from Tengiz through the CPC pipeline to Novorossiisk.

The route will also be good for oil from offshore Caspian fields developed by Russia and Kazakhstan. After the pipeline agreement was signed, Russian President Vladimir Putin said that Greece and Bulgaria were willing to sell part of their stakes to outside participants. A possible new member of the project is the Kazakh state-owned oil company Kazmunaigaz. Andrei Grozin, head of the Central Asia and Kazakhstan department at the Russian Institute of CIS Studies, said, "Kazakhstan promises to double its oil output from the current 65 million metric tons a year by 2015 thanks to Caspian fields. Naturally, Russia is interested in Kazakh oil that is still pumped through pipelines controlled by Russia."

It would seem that the competitive advantages of the new route are obvious. Then why did it take a total of 13 years to agree on it? Until recently, investors and interested parties had doubts about whether oil from the Caspian fields would be enough to fill the new pipeline. But these doubts were dispelled after Russia and Kazakhstan signed a large-scale transit agreement on the supply of Kazakh oil to Europe via Russia. They agreed to more than double oil supplies through the CPC pipeline to Novorossiisk, from the current 28 million metric tons a year to 67 million metric tons.

Yet another argument in favor of launching the Burgas-Alexandroupolis pipeline was provided by the inauguration of the BTC pipeline. Turkey, which is a participant in the latter project and which also controls the straits between the Black and Mediterranean seas, began throwing up obstacles to Russian tankers running between Novorossiisk and Western European ports. Violating international conventions, it introduced its own rules for passage through the straits in 1995. In recent years, discrimination against Russian oil tankers has become especially visible: tankers from Novorossiisk can wait weeks for passage through the Bosphorus. The new pipeline will provide a route for Russian and Kazakh oil to Europe that will be independent of Turkey's unfriendly transit policies.

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