



**Russian crude exports to Asia set to double**  
**Analysts see exports hitting more than 1 million b/d by 2014**

London—Russian oil exports to Asia are set to more than double over the next five years, reaching more than 1 million b/d by 2014, US-based analysts at **Energy Security Analysis Inc** said January 21.

The increase is mainly due to the startup late last year of the ESPO pipeline designed to export crude from East Siberia to Asian markets via Russia's Pacific Ocean coast, **ESAI analyst Andrew Reed** said in a presentation via the internet.

At the same time, shipments to Russia's traditional export market in Europe are set to decline by around 500,000 b/d, with the fall mainly coming from the Black Sea, Reed said, adding that Russia was about to undergo a "rapid shift" in the location of its oil production and exports.

The first phase of the ESPO pipeline started operations in December 2009, and will see up to 300,000 b/d of crude exported from a new terminal at Kozmino on the Pacific coast. Volumes from Kozmino are expected to average 240,000 b/d this year, rising to 300,000 b/d in 2011 and 2012 before future expansions allow an increase to 350,000 b/d in 2013 and to 400,000 b/d in 2014.

At the same time, a branch of the ESPO pipeline running south will allow overland exports to China to rise from 199,000 b/d in 2009 to 300,000 b/d by 2011, sustaining that volume through 2014.

The other main source of Russian crude exports to Asia is from oil fields around Sakhalin island, from where exports are seen rising from 277,000 b/d in 2009 to 330,000 b/d by 2014.

ESPO crude is likely to compete in the Asian market with West African grades in particular, and, to a lesser extent, Middle Eastern oil, Reed said. China is likely to be most obvious market for ESPO crude, as the Russian crude can replace China's falling domestic production and it is also well suited to the country's refineries. "It is not a great match for countries like Japan, which have desulfurization capacity. However, supply diversification is attractive," Reed said.

Despite the geographical advantage of being closer to the Asian refiners than the competing suppliers, the delivered cost of ESPO crude will be higher than that of West African or Middle Eastern crude, Reed said, because of the higher production costs in West Siberia and the pipeline tariff involved.

Reed declined to describe ESPO as a "game-changer" for the Asian oil market, noting that the total Russian export volume of 1 million b/d would still only be a relatively small proportion of the total Asian market of around 29 million b/d.

While exports to Asia are rising, shipments to Europe are expected to fall, he said. Volumes of Russian oil coming out of the Black Sea are expected to drop from 1.89 million b/d in 2009 to 1.59 million b/d in 2014, with shipments along the Druzhba pipeline falling from 1.195 million b/d to 750,000 b/d. Offsetting this, Baltic Sea exports are expected to rise from 1.4 million b/d to 1.7 million b/d, mainly thanks to expansions at Primorsk and Ust-Luga, but this is not enough to stop overall exports to Europe declining from 4.934 million b/d in 2009 to 4.43 million b/d in 2014.

With much of the new Russian oil exports comprised of new crude streams such as ESPO and Sakhalin, the dominance of the country's traditional medium-sweet Urals blend is waning, Reed said.

Urals crude made up 73% of the total volume of oil exported by Russia in 2009, including oil of Kazakh origin passing through Russia. By 2014 this proportion is set to fall to 61%, he said. "It is just a matter of time before less than half the exports coming out of Russia are Urals medium sour," he said.

This shift is likely to be bullish for Mediterranean crude market fundamentals, he said, although this is offset by declining overall demand for oil in Europe. Russian crude output is likely to be flat at 10 to 10.1 million b/d between 2010 and 2014. And despite the higher flows to Asia, total crude exports are expected to peak this year at 5.52 million b/d and decline 150,000 b/d by 2013, before rebounding somewhat in 2014, Reed said.—Richard Swann