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SAKHALIN ENERGY FACES EXPORT PROBLEMS

The operator of Sakhalin-2, Sakhalin Energy, had to delay its export oil shipments for more than a month due to lack of coordination between Russian official departments. After six years of discussion, those proved to be unable to agree upon opening a frontier point for the project. As a result, in 2006, the company will sell 250-500 thousand tons of crude less than planned and lose up to \$250 million. That may extend the payback period and delay the profit earnings of the production sharing project.

On July 25, 2006, the oil carrier Fernley's informed citing Primorsk sea navigation company (PSNC) that a PSNC-owned tanker Primorye arrived in the Sakhalin-2 terminal Vityaz as early as the beginning of June. It was loaded but did not get permission to put out to sea. PSNC provides tankers for oil shipments from Sakhalin-2. Earlier a PSNC spokesperson said that this year export deliveries would start on June 20, but this never happened.

Sakhalin Energy confirmed that the company faced the problem of oil transportation. According to Russian legislation, a permanent frontier point should be established for hydrocarbons export deliveries. "Russian government made necessary orders in 2000," the company spokesman Ivan Chernyakhovsky explains, "but since that time the point was not opened due to a procedure dispute between different ministries and departments." Oil shipments were conducted according to interim permission, but this was not prolonged this summer, Chernyakhovsky said. Only on July 21, the Transport Ministry ordered opening a frontier point for export oil shipments.

Navigation in the Sakhalin-2 area is only possible from July to December. One month of standstill will probably result and a 250 thousand ton output drop for the company. Beginning of whole-year shipments from Sakhalin-2 is scheduled for 2008, when Sakhalin Energy builds a pipeline from the Northeastern shelf platform to the terminal in the southern part of Sakhalin. As of today, oil is shipped directly from Vityaz platform.

Potential output losses due to the standstill may be estimated at \$125-250 million, experts say. Sources in PSNC said that Sakhalin-2 oil output was planned at 2 million tons this year, but in Sakhalin Energy, they affirm that only 1.5 million tons were planned. Experts believe that the plan was adjusted due to the standstill, taking into account that in the last season the company extracted about 1.65 million tons. Sakhalin Energy hopes that it will make up the loss. However, the project payback period may be extended and the Russian government may wait longer for its share in Sakhalin-2.

Source: Kommersant, 26/07/06