

TNK-BP* Overtaking Weakened *YUKOS

The Russian-British holding *TNK-BP* is close to purchasing a controlling share in the Latvian oil-loading port *Ventspils Nafta* and moving ahead of scandal-weakened *YUKOS* as the area's major exporter of oil. The *Petroleum Argus* information agency reports that analysts agree that the deal is nearing a close and will benefit both sides. Moreover, the deal is critical because it will resolve the current supply shortage crisis, which ails the terminal and the Latvian government.

The *TNK-BP* press service has not officially confirmed this information, however, opting to wait until December 15. The *Ventspils Nafta* press service told **Rosbalt** that 'we have no concrete information yet about the deal and can not say what our shareholders are doing.' Representatives of the Latvian company added 'there are a lot of rumors surrounding our talks with other companies. But if these talks are productive, we will then make comments.'

Petroleum Argus reports that *Ventspils Nafta* is looking for a strategic investor from a number of Russian oil exporters in order to reestablish the supply of oil from Russia, which was cut off by Russian oil pipeline monopoly *Transneft* earlier this year in an apparent bid to take over the port. However, representatives for *Ventspils Nafta* strongly deny that talks are taking place with potential buyers.

The *Ventspils Nafta* oil-loading terminal has a capacity to process 16 million tons of oil and 12 million tons of oil products per year. With the oil pipeline cut off at the present time, crude oil is being delivered to the port terminal exclusively via railroad, which has sharply reduced the port's total turnover. In the first nine months of 2003, *Ventspils Nafta* loaded only 2.6 million tons of oil and 6.5 million tons of oil products. This has resulted in huge losses for the company and the Latvian budget. Analysts proposed that this state of affairs was specially created by *Transneft* in order to force the main shareholders in *Ventspils Nafta*, which include the Latvian government (42.68%) and *Latvijas Naftas Tranzits* company (47.87%), to sell their controlling shares in the port to *Transneft*.

This past March *Latvijas Naftas Tranzits* offered *Transneft* a deal to purchase shares, but *Transneft* turned them down without comment. In September, *Transneft* President Semyon Vaynshtok told **Rosbalt** that his company under no circumstances would acquire the oil-loading terminal at Ventspils. Moreover, *Transneft* managers say they are satisfied with the development of the Baltic oil pipeline system and its port at Primorsk, Leningrad Region. 30 million tons of crude oil are currently being exported through the pipeline system yearly although this figure is expected to increase to 62 million tons per year in the near future.

Nevertheless, it seems that the Latvian authorities have no alternative but to sell their controlling interest in *Ventspils Nafta* to a Russian oil exporter. Latvian bureaucrats

understand very well that in the worst case scenario from 50% to 70% of the oil-loading terminal's capacity will remain idle resulting in more huge losses for the Latvian budget. Several unofficial sources are claiming that the sale of the Ventspils terminal could take place as early as next week. They also say that *TNK-BP* could already gain control over the Ventspils oil-loading terminal by the end of this year.

'*YUKOS* was considered the leading candidate to buy the Ventspils terminal, but its position has been significantly weakened by the events leading to CEO Mikhail Khodorkhovsky's arrest,' say analysts at *Troyka Dialogue* investment company. They added that *TNK-BP* is now the primary client of *Ventspils Nafta* and supplies approximately 73 thousand barrels of oil per day via the railroad. At the same time, analysts at *Troyka-Dialogue* also say that *TNK-BP* 'needs to gain permission from *Transneft* to acquire the controlling interest in the Latvian port, and this may be difficult because the Ventspils terminal will compete with the increasingly productive *Transneft* port at Primorsk.' Therefore, *Troyka-Dialogue* analysts do not exclude the possibility that *Transneft* will require an investment of USD 140 million in its own oil pipeline system from the purchaser of *Ventspils Nafta*.

Nevertheless, analysts at *Troyka-Dialogue* believe that the Ventspils terminal will over time be reintegrated into the Russian oil pipeline export system. Moreover, by 2005 up to 100 thousand barrels of oil per day will likely flow through the Ventspils terminal.

NIKoil analyst Lev Snykov says 'acquiring the terminal would be a good move for *TNK-BP* making it the leading supplier of crude oil in that area.' He added that if *TNK-BP* makes such a move he is 'fairly confident that the supply of oil pumped through the pipeline would increase because railroad deliveries alone can not come close to meeting the loading capacity of the terminal.' Therefore, Snykov surmises that *TNK-BP* will have to gain an agreement from *Transneft* for the pumping of crude oil through the *Transneft* pipeline.

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