

Port of Sisyphus

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A sad story

The project to build the new BPS-2 oil pipeline, which was to expand Russia's oil exporting capabilities through domestic ports to Europe, came up against an insurmountable obstacle just as it was about to be launched. The sea terminal at the port of Ust-Luga in Leningrad Oblast, which is the end point of the 1,100 km pipeline built by Transneft, cannot receive tankers and ship crude oil because of cave-ins that have formed on the docks. The cave-ins were caused by divergent sheet piles in the outer wall of the dock. The situation at the strategic installation was quickly taken under control by Deputy Prime Minister Igor Sechin, and Transneft was appointed to coordinate the work.

From the correspondence between the officials, it appears that the cave-ins on the docks started forming last July, when planned dredging work began in the area surrounding the terminal. Around that time, the owners of the docks—Rosneftbunker JSC and Neva Pipeline Company LLC, which are owned by the oil trader Gennady Timchenko, reported that construction work was nearing completion on the docks, with all the necessary equipment for the transfer of oil from the pipeline to tankers having been installed. The cave-ins, which

One of Russia's most famous infrastructure projects is on the brink of collapse—and not just figuratively, but literally. The docks at the port of Ust-Luga, which were built by a company belonging to Gennady Timchenko for Transneft, are on the brink of collapse. It has also been discovered that the entire new pipeline that ends at the ill-fated port is unlikely to be able to cope with the geopolitical objectives associated with it.



appeared suddenly, threatened the collapse of structures built on the docks.

The builders obtained approval from the Transport Ministry for the repair procedure for the dock wall in mid-August, but in September the work was abruptly halted by the Russian Technical Supervisory Authority (RTN), which found that the construction of the installation was proceeding without official permission, a number of buildings already built did

not comply with the design documentation, and the parcels had not been properly designated for construction. Not having these documents, RTN was unable to determine the causes of the divergence of the sheet piles and thus rejected the proposed repair procedure. Meanwhile, work on the installation resumed soon thereafter, since the project was politically motivated. It had been originally planned that Prime Minister Vladimir Putin would cut the red rib-

bon at the opening of the terminal, and the successful launch of BPS-2 would be a good argument in favor of the current government before the election.

However, the builders missed the deadline. More defects formed with each passage of the dredgers, making it necessary to perform the same work several times in the same place as dirt continued to fall from the docks. It then became necessary to cover the damaged areas of the

dock wall with metal sheets at depths ranging from 4 to 17.5 meters. The dredging continued all winter long, with cold weather and ice conditions at the port greatly hampering the mostly underwater work.

Restoration of the cave-in

The state-owned company Transneft, which built the pipeline and launched it in autumn, has been doing basically the same exercises for several months. "We're already losing money, because technically we cannot stop the system and are forced to pump oil from one reservoir to another," said Igor Demin, the spokesman for the monopoly, without disclosing the magnitude of the losses. He said the company is forced to wait until the builders complete the repairs so that RTN can approve the launch of the terminal. Both Mr. Demin and RTN declined to comment on the technical details or say when the terminal may be launched.

Technicians decided not to risk commenting authoritatively on photos and data from correspondence between officials presented by journalists, saying that a proper determination of the causes of the cave-ins and the repair techniques to be used would require a study of the area. "If using metal sheets to patch over the caved-in places doesn't work, it will be necessary to dismantle what was built and rebuild it," says an expert from a civil engineering institute, adding that, in the worst case, "it will be necessary to pull out all the entire damaged sheet pile, which would be



a major undertaking." If this is the case, the completion of the work will be delayed for several months. Moreover, it will be impossible to know for sure how successful the repair was until spring. "Warmer weather may cause new cave-ins as the ice in the

bay and the backfill melts," said the expert.

Meanwhile, Rosneftbunker and Neva Pipeline Company have commented extensively on repair work that they have done. From their explanation, it follows that all the necessary work has been done,

the pipeline trestle is sturdy enough to be used, the load-bearing capacity of the foundations is being checked, and regular geodesic monitoring is being done. Thus, the company hinted that there are no longer any technical problems that should delay the launch of this strategic facility.

However, it can be gleaned from the last letters written by RTN Head Nicholas Kutyn to Deputy Prime Minister Igor Sechin that it would still be unsafe to dispatch oil tankers regularly from the repaired docks. Experts from Spetsfundamentstroy Company found that the sheet piles of the dock diverged not only in the underwater part of the dock, but also beneath the surface of the bottom, and more significantly than was believed. As the propellers of outgoing tankers erode the bottom, soil from the dock will cave in again, threatening the collapse of the structures built on it and a major accident involving an oil spill into the Baltic Sea. The agency declined to comment officially, saying that the service would announce its decisions when the terminal is ready to be launched.

The Transport Ministry said it was inclined to agree. According to unofficial information, the officials of the ministry do not want to be

seen as extreme in this situation and are ready to launch the terminal in test mode, send out a tanker or two in gala fashion and very carefully, and then close the terminal for an overhaul, which is possible in the warmer months. The problem is compounded by the fact that similar cave-ins were found at a nearby Novatek gas condensate dock, which was built as a single facility with the docks for BPS-2, so the two must be approved for launch together. "It has to be decided whether or spend another six months working on the Novatek docks, or launch the repaired N4 and N5 docks," says a source who agrees with the Transport Ministry.

Another circumstance that would support the likelihood of a Potemkin scenario of the launch of the terminal by the country's top leaders is an official tender announced by Surgutneftegaz for the first tanker oil shipments from Ust-Luga on February 27-28. We were unable to get a comment from Sovkomflot (SKF), whose tankers are supposed to be filled with the first batches of oil at the terminal. However, Putin will definitely not be at the event. His press secretary, Dmitry Peskov, hastened to announce that his boss is not planning to travel to Ust-Luga.

The final decision was to be made by Igor Sechin. A key meeting with the Deputy Prime Minister was repeatedly postponed and took place just as this issue was going to press. According to a source, the officials agreed to launch the dock "next week." The Premier will not be at the event.

The pipeline and the void

It should be noted that some experts doubted there would be enough oil to fill BPS-2 to capacity. The new branch of the Druzhba oil pipeline was designed to deprive Belarus of the ability to manipulate the transit rates on Russian oil exports to Europe. And it worked—Belarus gave up, and there have been no disputes on transit rates since it joined the Customs Union. But European buyers are not thrilled with the idea of receiving oil by tankers rather than pipelines.

And Russia's attempts to rein in its transit partner have provoked retaliation from Ukraine, which was spooked by the possibility of transit being halted through its branches of the Druzhba pipeline. Despite the change of government in Ukraine, in 2011 the flow of oil through one of the Ukrainian branches was turned to the north, and easy Azerbaijani oil flowed in the direction of Belarusian oil refineries, which made it impossible for Transneft to use this thread to transport Urals oil to Europe. Moreover, Ukraine has intensified negotiations with Poland to build a bridge between its pipeline system and the Druzhba branch to the Polish port of Gdansk, and Transneft was already planning to redirect this oil (about 10 million metric tons) through BPS-2.

In the end, Russia decided not to reduce the supply of oil through the Druzhba pipeline. Moreover, Russian oil companies are now forced to make the maximum possible use of Belarus' oil refining capacity in order not to lose mar-

ket share to Azerbaijani oil coming into the country via Ukraine. However, although the capacity of BPS-2 (now under construction) has been reduced from the design capacity of 80 million tons per year to 30 million, the potential volume of oil for the pipeline is still not enough. Putin declared at that time that the pipeline can be loaded to full capacity by increasing oil production in Russia.

But the Energy Ministry has projected that Russian oil production will increase by only 1% in 2012, while exports of crude oil from Russia will stay the same. According to the same Energy Ministry, the plan was to pump 20 million tons through BPS-2 this year. This means that in order to load the new pipeline and the terminal at Ust-Luga to capacity, a significant volume of oil would have to be redirected from Russian oil export ports, primarily from Primorsk and Novorossiysk. Thus, the main political aim—reducing transit dependence on the country's neighbors and raising the revenue of the Russian port industry—has not been achieved.

According to Alexei Bezborodov, Director of the research agency Infranews, the amount that Transneft is spending to maintain the pipeline is roughly equal to the full set of costs for the operation of BPS-2 during the transfer of the oil to the tankers. In addition, the monopoly will experience a shortfall in revenue from oil transportation via BPS-2 (20 million tons in 2012, according to an Energy Ministry projection),

and the port of Ust-Luga will experience the same shortfall due to a reduction in ship calls and charges for them, not to mention the shortfall to be experienced by SKF, which was counting on transporting this volume.

According to Mr. Bezborodov, the capital repair of the dock should cost on average about \$100,000 per meter. Based on the total length of the docks, it will cost at least \$30 million to restore the docks. Another \$100 million will be spent on additional dredging. Rosneftbunker did not disclose how much it will spend on the repair, noting only that "the company is paying for it for the time being." Oil trader Gennady Timchenko also has only himself to rely on in bringing the cargo to the terminal. Market participants say it is unlikely that any oil company will want to enter into long-term contracts to ship oil from unfinished and unsafe docks.

Meanwhile, informed sources say that Gennady Timchenko has already lost interest in the project. His companies have offered to sell the ill-fated terminal to a number of oil companies for \$200 million (according to the source, that is how much the private investor invested in the construction of the terminal). But they flatly refused, since the repair of the docks will require about the same amount of investment. It seems that Putin himself, who was involved in drawing up the business plan, will have to sort out the situation.