
OUTLOOK FOR RUSSIAN PETROLEUM TRADE TO EUROPE- OPPORTUNITIES AND RISKS AHEAD

London, 1 March 2005 – Can the European refining industry continue to rely on distillate exports from Russia in future? What will be the impact on crude oil markets in Russia and Europe if export pipeline systems are debottlenecked? Purvin & Gertz' latest subscription study, ***Outlook for Russian Petroleum Trade to Europe: Opportunities and Risks Ahead***, addresses these critical questions, and provides a comprehensive assessment of crude oil and refined products trade issues through 2020.

“Refiners in Europe face a number of challenges, due to structural changes in fuel markets”, says Steven Kelly, Senior Consultant in Purvin & Gertz' London office. “Net gasoline exports from Europe doubled to 30 million tonnes over the last five years, and by 2020 the surplus could exceed 50 million tonnes. Over the same period European imports of middle distillates, mainly from Russia and other CIS countries, will grow from 30 million tonnes, even with alternative supplies such as GTL diesel and biodiesel. Fuel oil markets are also undergoing structural changes which affect overall demand and trade balances for each grade.”

The study provides detailed regional balances for the western federal districts in Russia. CIS product exports have increased in recent years, including significant quantities of fuel oil. Future availability of fuel oil and gasoil from Russia, Belarus and Ukraine will depend on domestic demand, refinery upgrading and infrastructure development. After many years of decline, domestic gasoline and diesel demand is forecast to show modest growth. Vehicle ownership will increase as regional economies expand.

Infrastructure development will dictate the future course of the industry. Crude oil production from Russia and the Caspian countries is seen increasing from 11 million B/D to 17 million B/D by 2020. “While this prospect holds great promise for European refiners, it is only possible if sufficient pipeline export developments occur in Russia”, explains Kelly. “The study therefore considers two scenarios, with and without sufficient export pipeline capacity.” Crude runs in Russia would likely decline if enough export capacity were available, and the European refining industry would face investment to process more Russian crude. If export constraints persist, crude runs in Russia could remain above economic levels and runs in Europe would be lower. In either case, capital investments totaling more than \$30 billion will be required to meet anticipated demand and more stringent product quality specifications.