

Commercial Update - Sakhalin Region, June 2006

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Transportation

** Foss Maritime Company Prepares for Delivery of Modular Cargo to Russian Far East Oil Project (May 31, 2006, By Foss Maritime; US Newswire).*

Since the summer of 2003, Seattle-based Foss Maritime Company has been providing marine transportation services to a remote project site in the Russian Far East on behalf of a major international oil consortium. This oil production site is located near Chayvo Bay on the northeast tip of Sakhalin Island.



Building upon the success of the 2003 sealift and following a competitive bid process, the international oil consortium engaged Foss Maritime Company for a multi-year contract to deliver large, prefabricated, modular structures to the site.

After a long and detailed planning process with the customer and their engineers, the Foss Maritime fleet of tugs and barges left Seattle in May 2005 with equipment including a mobile crane, cutting head dredge, dredge pipe, workboats, ballast pumps, forklifts, welding and cutting units, light plants, and other heavy equipment for the 30-day journey to the Russian Far East. The shore-based Foss Sealift Team was on site well in advance of the fleet's arrival. In early May 2006, Foss re-opened their project office in Ulsan, Korea with an experienced operations team to work closely with their customer and the module construction engineers as well as the fabricator, Hyundai Heavy Industries to load the remaining modules. Foss is

providing more than 78 ballasting pumps, hoses and 40 staff to simultaneously prepare and load two barges at a time while transferring ballast water at a rate of 3,000 tons per hour.

For more information on this project and the other Foss Maritime Company provides worldwide, visit <http://www.foss.com>, or contact Paul Gallagher, 206/281-3854, pgallagher@foss.com

** Airbridge Cargo Increases Presence in Sakhalin to Serve Oil and Gas Industry (By RBWire, June 27, 2006).*



AirBridge Cargo (ABC) has added a second weekly IL-76 freighter operation to connect with its international services from its hub in Krasnoyarsk to Sakhalin and has opened an office on the island to support the oil and gas industry. ABC is the only scheduled all-cargo airline serving Yuzhno-Sakhalinsk. ABC launched a weekly

service to Sakhalin from Frankfurt and Amsterdam in March last year. Its Boeing 747 freighter services connect with the dedicated IL-76 freighter operation at ABC's hub in Krasnoyarsk. Now a second weekly flight has been added to satisfy demand from the oil and gas industry in the region, including growing demand from China and Japan services that also operate through Krasnoyarsk.

The airline has appointed Stanislav Gaponenko and Alexander Vorontsov as its representatives in Sakhalin, responsible for sales and customer service, respectively.

Import cargo for Sakhalin originates in Europe, the USA and Asia. In addition to its own scheduled services linking Europe, Russia and Asia, ABC has signed major interline agreements with Air Canada, Continental Airlines, Nippon Cargo Airlines and Qantas to establish high quality freight channels into Sakhalin through their connections with ABC flights. Air Canada generates traffic from the oil industry in both Calgary and Edmonton and Continental Airlines is expected to follow suit ex Houston.

AirBridge Cargo is a scheduled cargo airline and a subsidiary of Volga-Dnepr Airlines based in Moscow.

** Aeroflot resumes flights to Sakhalin (Source: Sakhalin.info, July 04, 2006).*



Picture by Sakh.com news

Now a member of Skyteam alliance, Aeroflot airlines started regular passenger service to Sakhalin. The service (flight # SU-895/896, Moscow-YS-Moscow) is scheduled for Mondays and Thursdays (The airline hopes to get more convenient schedule in the future), on Boeing 767-300. Aeroflot hopes to provide convenient connection flights, competing with Transaero and Domodedovo, looking on European routes.

Oil and Gas

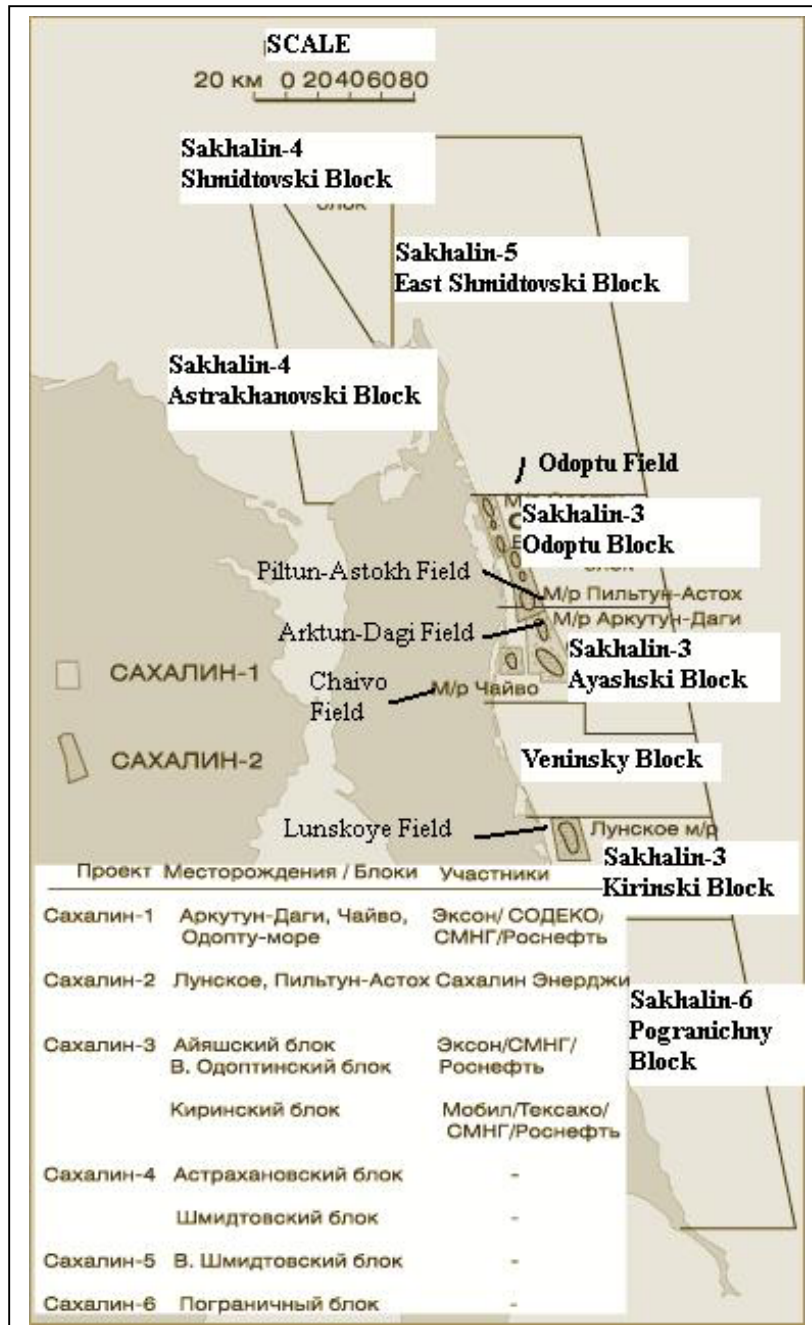
** Sakhalin-V project exploration set to continue (RIA Novosti, June 09, 2006).*

Shelf exploration as part of Sakhalin-V resumed for a new season after the reopening of the northern port. A spokesman for Sakhalin Shelf Services said the northern Sakhalin port of Moskalvo, which is only accessible from early June to early November, would take equipment supplied by Elvari Neftegaz to explore deposits as

part of Sakhalin-V. Elvari Neftegaz, set up by project operators Rosneft, Russia's state-owned oil company, and BP, will drill at the Kaigansky-Vasyukansky deposit. Sakhalin-V covers the Kaigansky-Vasyukansky deposit, whose recoverable oil reserves are estimated by Rosneft at 1.171 billion tons (8.6 bln barrels), and Vostochno-Shmidtovskiy deposit with estimated recoverable reserves of 411 mln tons (3 bln barrels) of oil and 255 bln cubic meters of gas.

** Molikpaq platform working again (United Press International, June 14, 2006).*

Molikpaq oil platform has returned to duty and begun the summer oil extraction season, ITAR-TASS reported. Molikpaq, which is owned by Sakhalin Energy, was out of operation during the winter months. Operators must first wait for the sea to become free of ice before lifting the floating berth from the seabed and docking the Okha supertanker, which is used for storage during the season.



Original Picture - by Rosneft

Since 1999, the Molikpaq platform has produced approximately 10 million tons, or 70 million barrels, of oil. This season it is expected to produce 12 million barrels of crude. The oil from Molikpaq is exported to the Asia-Pacific region and the United States.

** Sakhalin-1 plans to start exporting oil from the terminal of De-Kastri in October (AK&M Agency, June 26, 2006).*

Participants of Sakhalin-1 project plan to start exporting oil from the terminal of De-Kastri (Khabarovsk Territory) in October 2006, declared Lev Brodsky, General Director of Sakhalin Projects, Rosneft managing company. According to Mr. Brodsky, the major exports will be directed to the Asia-Pacific Region. The project capacity of the De-Kastri terminal is 12.5 million tons of oil. The oil is delivered to the terminal via underwater pipeline from Sakhalin.

Rosneft is set to invest \$4.5 bln in Far East prospecting by 2010 (RIA Novosti, June 26, 2006)

Rosneft is planning to invest \$4.5 billion in geological prospecting in Russia's Far East for the period until 2010. "Investment in prospecting from 2006 until 2010 should total \$4.5 billion," said Lev Brodsky, head of Rosneft's managing company – Sakhalinskihe Projekty. He added that the investment would cover Sakhalin-III, Sakhalin-IV, Sakhalin-V projects and deposits on the Kamchatka

Peninsula. The state-owned oil company, which will hold an initial public offering in mid-July, will drill 27 prospecting wells at new fields in the Far East by 2010, Brodsky said.

** Russia to study if Western firms damage security (Reuters, June 02, 2006).*

Russia's cabinet will study how the activities of major Western companies affect national security, the government said amid increased pressure from the Kremlin to boost control over strategic industries. A cabinet meeting ordered the economy and energy ministries and the Academy of Sciences to submit a report on the issue in the third quarter of 2006. Moscow floated the idea of taking control of huge energy projects in Russia's Far East from Royal Dutch Shell and ExxonMobil, raising comparisons with South American-style resource nationalism.

The Resources Ministry cited a report by Russia's Academy of Natural Sciences, distinct from the bigger Academy of Sciences, on the country's three production-sharing agreements: Shell's Sakhalin-2, Exxon's Sakhalin-1 and the Kharyaga license held by Total. The report found them to be behind schedule, over budget and short on Russian involvement and suggested boosting the presence of Russian companies in these consortiums to 51 percent.

Vedomosti newspaper reported that Putin had demanded the reworking of a new resources law to ensure many more oil and gas fields are classified as "strategic" and therefore off-limits to foreign owners.

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