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Russia Agrees to \$25 Billion Oil-for-Loans Deal With China

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By Lucian Kim

Feb. 17 (Bloomberg) -- Russia agreed to supply China with oil for 20 years in return for a \$25 billion credit, as the world's largest energy producer seeks to expand its presence on East Asian markets.

Russia signed the accord in Beijing today to deliver 15 million metric tons a year (301,000 barrels a day) for the next two decades, as well as build a branch from a new Siberian pipeline to the Chinese border, Deputy Prime Minister Igor Sechin said on Russian state broadcaster Vesti-24.

State oil producer OAO Rosneft and pipeline operator OAO Transneft will receive \$25 billion in loans from the China Development Bank, Vesti-24 reported. Transneft and China National Petroleum Corp. signed a separate deal on the construction of a spur from the East Siberia-Pacific Ocean pipeline, Vesti-24 said.

Russia, which shares a 4,300-kilometer (2,700-mile) border with China, is seeking to increase its influence in East Asia by building oil and gas pipelines, starting deliveries of liquefied natural gas and hosting the Asia-Pacific Economic Cooperation summit in 2012. Currently Russia delivers oil to China via rail and a pipeline via neighboring Kazakhstan.

Rosneft, whose chairman is Sechin, plans to supply the new Pacific Ocean pipeline from its Vankor field in east Siberia. Transneft expects to complete the pipeline's first link, between Taishet in Siberia to Skovorodino on China's northeastern border, by the end of this year.

Rosneft will get \$15 billion of the credit, while Transneft will receive \$10 billion, Russian state news agency RIA Novosti reported from Beijing, citing an unidentified participant in the talks. China agreed to reduce the annual interest rate by one percentage point to 6 percent, RIA reported.

CNPC bought \$500 million worth of shares during Rosneft's initial public offering in July 2006. Earlier, the Chinese company extended a \$6 billion loan-for-oil deal to Rosneft in December 2004, at a time when OAO Yukos Oil Co. was being dismembered under back-tax claims. Rosneft denied that loan was used to buy OAO Yuganskneftegaz, Yukos's main production unit.

To contact the reporter on this story: Lucian Kim in Moscow at lkim3@bloomberg.net

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