U.S. TRADE AND DEVELOPMENT AGENCY

EXECUTIVE SUMMARY

Albanian - Macedonian - Bulgarian Oil Pipeline Corporation
(Trans-Balkan Pipeline Project)

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2.0 SUMMARY

AMBO LLC seeks to develop a 570-mile crude oil pipeline for the transport of crude oil from the Bulgarian Black Sea port of Bourgas across Bulgaria, Macedonia, and Albania to the Adriatic Sea port of Vlord. Oil originating in Southern Russia and Central Asia that has been transported to the Black Sea via pipelines to the Russian ports of Novorossyk and Tuapse; the Georgian ports of, Supsa and Batumi would be shuttled, via tanker across the Black Sea to the Port of Bourgas. Expected increases in oil flows into the Black Sea via these ports will quickly surpass the safe capacity of the Bosphorus as a shipping lane for such oil. Given the cost of loading and offloading tankers in the Black Sea versus transiting the Bosphorus, the costs of the AMBO pipeline would be offset by the economic advantages of VLCC loaded at Vlor~.
Successive governments, since 1994, from all three Balkan countries have given their full written approval and support for this project. From their prospective the revenues from the **AMBO** pipeline would generate significant new income flows and provide the governments with direct investment opportunities in their own economies. It should also advance the privatization aspirations of the US government in the region by providing work opportunities for new industries in support of the maintenance of the pipeline and the downstream industries of oil refining.

Financial returns from the AMBO pipeline

When we put together the financials on the pipeline we assumed 356 days per year throughput (average down times were estimated at 10 days annually). The first two years were figured in such a way to bring on full throughput and full impact of financing and operating costs so they are slightly different than the regularized annual estimates. Just to keep things simple, the full throughput figures are based upon a 750,000-bbl/day estimate at a throughput tariff of $1.299/barrel.

There is then a lot of detail with regard to debt servicing which is presented in **Section 6.0.** It shows a positive return to equity investors in year two forward with Equity finance investors resulting IRR at more than 20%.

Impact of the pipeline upon local economies:

During construction, the actual dollars for local labor is more difficult to estimate at this stage, but if we take the standard Ex/Im estimates of 15% for debt and 50% for third party equity; from this, the local expenditures on salary and equipment would be $120,000,000. This would cover the three-year construction period and not include per them for U.S. company expenses in region. Given the length of the pipeline in each country; Albania and Macedonia should receive 25% of these expenses and Bulgaria 50%.
When the pipeline is operational, there are several direct income flows for all three countries. In order to make sense of these flows, a twenty-five-year period was employed. The return on equity for Bulgaria would be $412,000,000; for Macedonia and Albania, $206,000,000, each (their equity positions are less as the length of pipeline is shorter in both cases).
Operating expenses for the 25 years are estimated to be $1,186,000,000 and about half of that would include salary and service (electricity) supplied from the region, about $593,000,000, or about $59,000,000 per year would stay in the region. Again the divisions ought to be about the same as above: 25%, 25%, and 50%. The local tax was estimated at $940,000,000 for transit fees over the 25 years or about $38,000,000 per year divided among the three countries.

In Albania and Bulgaria's case, there would be harbor fees as well. These would amount to $387,000,000 over the 25-year period, or $15,480,000 per year for each.
Thus the total over 25 years return to Albania, for instance would be $1,006,250,000. The annual amounts would average $40,250,000. $40 million per year for investment in Albanian infrastructure or economic recovery would help the government meet its development plans.

Returns to Western Investors

This 36-inch diameter pipeline has a nominal throughput capability of 750,000 barrels per day. The resulting USD billion dollar pipeline will become a part of the region's critical East-West Corridor 8 infrastructure, which includes highway, railway, gas, and fiber-optic telecommunications lines. This transportation corridor was approved by the Transport Ministers of the European Union in April 1994 and has been aggressively supported by the United States Government through its South Balkan Development Initiative. Additional support has been received through the European Union's **PHARE** program and through the British, French, and German Governments. The East-West corridor begins in the Ports of Varna and Bourgas on the Black Sea; crosses through Bulgaria, Macedonia, and Albania; and ends in the Albanian ports of Durres and Vlori~.

Volume 1, Introduction

By providing for the daily delivery of 750,000 barrels of crude oil to VLCCs in a deepwater, all-weather port at Vlor~, this strategic transnational infrastructure project has several important implications on international markets:
It will give European nations access to a significant alternative source of crude oil.
It will provide a consistent source of crude oil to American refineries along the East coast at a time when more than half of the oil required by the United States is imported through foreign markets.
It will build a foundation for healthier economies through the Balkans and facilitate rapid integration of those nations with Western Europe.
It will permit governments in the Caspian Sea region to employ long-term planning to achieve the enormous economic potential associated with these new fields in the region.
It will provide American companies with a key role in developing the vital East-West Corridor.

The Value to Oil Companies

There are several advantages to the oil companies that involve picking up oil outside of the Black Sea in very large quantities, 750,000 bpd. They avoid the environmental danger of trying to push too much oil through the Bosphorus. They have turnaround times of four to five days shorter than trying to come through the Bosphorus. The availability of ships from nearby deliveries provides the opportunity to reduce tanker charter costs. The total cost of these ships (with world scale multipliers) is reduced. Since the delivery times are 5 - 6 days shorter than from a port on the eastern side of the Black Sea, the actual purchase price risk until delivery is much less.