Disappointment for Gazprom at West Kamchatka

After acquiring the licence for the section from Rosneft, Gazprom has failed to tap into any major discoveries. The section is located in the Sea of Okhotsk on the western shelf of the Kamchatka Peninsula. Gazprom’s well drilling was delayed by the sinking of the Kolskaya rig, which sank during towing. Tragically, 17 members of the drilling were team were found dead and 36 are missing. The company commenced drilling at the section last year, and has so far invested over RUB 4.5 billion ($145 million) at the deposit. The company will continue with its drilling programme into 2013, with plans to drill another well 3,300 m in depth.

Gazprom is developing the West Kamchatka shelf with the Korean consortium K.K. Korea Kamchatka Co. Ltd (KKC). Gazprom owns 60% of the project and KKC has 40%. Participants in KKC are: KNOC with 50% interest, Korea Gas Corp.; GS-Caltex Corp., SK Corp, and Daewoo International Corp. with 10% each; and Kumho Petrochemical and Hyundai Corp. with 5% each.

*Interfax Energy Daily*

Gazprom to Increase Exploration Spending

Gazprom is pursuing an aggressive investment strategy in order to increase its reserves by 269 million tonnes. Total investment will be RUB 61.4 billion ($1.98 billion) total, which represents a 17% increase over 2011 levels. The majority of the investment will be targeted in Russia, though significant investment will be earmarked for the company’s international operations. In Russia, Gazprom will invest RUB 52.2 billion ($1.6 billion), which is an increase of 19% over 2011 levels. 52% of this is earmarked for onshore projects, with the remaining 48% intended for offshore developments, particularly in the Russian Far East.

Overseas, Gazprom has interests in Uzbekistan, Vietnam, Tajikistan and Algeria, and these developments will benefit from the RUB 9.2 billion intended for them.

*International Oil Daily*
Kremlin to Reconsider Tax Hike

Following the recent announcement of the increase of the Mineral Extraction Tax (MET), oil and gas producers led by state-owned Gazprom and leading independent producer Novatek have been resolute in their opposition. As a result, the Kremlin has admitted that the MET may be revised, with the methodology used to calculate a producer’s contributions set to be changed. Proposals put forward by Gazprom would see a graduated rate for the MET depending on local conditions and specific fields. In addition to this, Novatek has called for consideration of the transportation tariffs and domestic prices when calculating the producer’s contribution. Furthermore, Novatek have urged the Kremlin to implement the new tax regime to become effective only after 2014.

Novatek has warned of the risk of deterring foreign companies from investing in Russian assets, citing Italy’s Eni, which holds a 29.4% stake in Novatek’s Arctic joint venture Severenergia. With the MET as proposed by the Kremlin, Novatek has said it may have to focus on the Yamal project (with Gazprom) at the expense of the Severenergia JV. This is because with the MET as proposed, there would be a question of profitability for the development of the fields and the construction of infrastructure at the East Siberian fields.

International Oil Daily

The end of TNK-BP

It seems very likely that BP will end its tumultuous, if profitable, relationship with Russian partners AAR as part of the 50:50 joint venture TNK-BP. BP is seeking to sell its 50% stake in the company, though this is not likely to be a straightforward process, with the oligarchs of AAR widely acknowledged to have the power and will to launch a lengthy legal process against such a sale under the terms of the shareholder agreement. Resistance is expected as AAR relies heavily on the technical expertise of BP, especially in the development of more challenging fields. Few potential buyers of BP’s stake would be able to offer the same experience and technical ability. With Russian state-owned outfit Rosneft widely believed to be the most likely buyer, the question of technical ability will remain.

While BP is not expected to achieve the $34 billion it offered AAR for its stake last year, forecasts at the low end of the scale - around $21 billion - will still represent a 3 fold return on the initial investment of $7 billion. Furthermore, with dividends of around $19 billion extracted, the TNK-BP joint venture has proved impressively profitable for BP. The sale is proof of the chronic breakdown of the relationship between AAR and BP management. But this is not the only cause; BP is increasingly keen to align itself with a state owned enterprise in Russia, as it has done elsewhere and this would be very difficult while still part of TNK-BP. With Russia increasingly eager to develop its Arctic assets, the state owned giants know that in BP they would have a partner with the required experience and expertise to make it happen.
Midstream

Pechora LNG: Gazprom joins Project

A working group has been set up to decide on the technical and legal elements of the project following the arrival of Gazprom as a developer. Representatives from all the developers, Gazprom, Altech Group, and Pechora LNG Company will make up the working group. The plant will be supplied with gas from the Kumzha gas condensate field via a 225km pipeline. According to Russian Law, output from the Pechora LNG will have to be marketed outside the country through Gazprom’s wholly owned subsidiary Gazpromexport.

Shtokman Uncertainty

There is uncertainty as to whether Statoil and Total, who hold 25% and 24% respectively in the Shtokman project company, will continue with the development due to costs. It’s understood no decision has been made, and the current FID deadline is July 1, 2012. But talks being conducted may conclude the FID by end June. It’s rumoured that Shell, (who partner Gazprom on the Sakhalin LNG project) could be possible replacements for Statoil, as a move towards a complete switch to LNG for the Shtokman project is being considered. This would cause further delays (of at least a year) to the project, and would end plans to supply gas to Europe through the Nord Stream pipeline. This is because the LNG would more than likely be supplied to the Asia-Pacific region, which looks set to overtake the European market in the next 10-15 years.

Upstream

Refining and Petrochemicals

Refining Investments Increase following 60/66

The new 60/66 tax regime has been praised for the significant increase in planned investment in the sector. Early forecasts put planned investments at RUB 181 billion ($5.5 billion). Under the 60/66 system adopted October 2011, export duties on oil are lowered by reducing the coefficient from 0.65 to 0.6. In contrast, the export duties for dark petroleum products are raised from 47% to 66% of the duty on oil. Export duties for gasoline are set at 90% of the oil duty. The 60/66 system was designed to stimulate oil
production at current fields in Western Siberia. The initial data show there has been no negative impact on either on tax receipts or planned capital expenditure.

*Interfax Energy Daily*

**Power**

**Gazprom’s Ambitious Expansion Plans**

Gazprom is pursuing an ambitious expansion agenda, in both the domestic and international market. The company will target mergers and acquisitions in order to add new capacity to the generation portfolio. Gazprom is in continued talks with the Renova Group, with a view to merge their assets forming the largest power group in Russia.

The company is also increasingly interested in Europe. Recent talks with RWE have broken down, but the firm has signed a deal with Dong Energy to cooperate on existing and new build gas fired power plants in northwest Europe. Furthermore, following the decision by Germany to abandon nuclear power and shut down all reactors by 2022, Gazprom has commissioned Booz &Co, a consultancy, to help it develop a strategy to enter the German market.

*International Oil Daily*

**Nuclear**

**TVEL to produce Fuel for Next Generation Reactors**

TVEL, the fuel producing arm of Russian state nuclear operator Rosatom, is planning to commence construction of a pilot facility for the production of dense uranium-plutonium fuel for the fourth generation reactors Russian reactors. The facility is intended to be completed by 2017. Experimental facilities at the Siberian Chemical Plant (SCP) in Tomsk are currently being set up, though a facility at Mayak is being considered for project, primarily because it is close to the Beloyarsk nuclear power plant, where the materials will be tested on the BN-600 reactor. In contrast, the SCP has an abundance of skilled personnel.

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