

Western oil companies will invest in Ukraine

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On 15 August, the Ukrainian Minister for Ecology and Natural Resources, Eduard Stavytski, announced the results of the tender to extract gas and oil from the Skifska deposit on the Black Sea shelf. The winner was a consortium which includes Exxon Mobil (with a 40% interest), Shell (35%), Romania's Petrom, which is controlled by Austria's OMV (15%) and the state-owned Nadra Ukraine (10%). The only competitor in the tender was the Russian company LUKoil. The deposit's reserves are estimated at 35 billion m³ of gas and 25-60 million tons of oil. The victory for this consortium paves the way for the signing of a production-sharing agreement (PSA); after signing it, the consortium will pay US\$325 million to the state budget within 10 days, and over the next five years it will spend US\$400 million on investing in geological surveys of the bed. The total investment is estimated at US\$10-12 billion.

Earlier this year, in May, the first tenders for the exploration and extraction of shale gas in the Olesk (Lviv region) and Yuzov (Kharkiv and Donetsk regions) oil fields were held; these were won by the Chevron and Shell corporations (one of their competitors was the Russian TNK-BP). Estimates for the two fields' deposits range from 0.8 to 3.5 trillion m³. Investments related to the geological survey are estimated at US\$370 million, and will reach US\$7 billion if the deposits are confirmed. Also on the occasion of the auction, the companies agreed to pay a 'bonus' to the Ukrainian state budget of US\$400 million. The annual production of gas on an industrial scale (if it takes place) is estimated at 3-5 billion m³ for the Skifska deposits, and at over 13 billion m³ for the Olesk and Yuzov deposits. Production will begin in 2018 at the earliest.

Commentary

- At the beginning of this year, the Ukrainian government announced^[1] it was taking steps to significantly increase fossil fuel extraction on its own territory. The rapid conclusion of these tenders shows that Kyiv has taken genuine steps in this direction. In the long term this will ensure greater independence from Russian gas supplies; domestic production now covers about one-third of demand in Ukraine. With increased domestic extraction and the implementation of energy-efficient technologies, Ukraine's demand for imports would fall from the current level of c. 40 billion m³ of gas to less than half that amount. Any start-up of gas production on an industrial scale would coincide with the end of the gas contracts with Russia (at the end of 2019); this would strengthen Ukraine's position before negotiations on a new agreement.

- If the geological surveys bear fruit, this would lead to the first investment by Western energy companies in Ukraine on such a scale. The participation in the consortium of the state Nadra Ukraine company, which specialises in geological studies, will provide Ukraine with access to Western technology. Petrom and Exxon Mobil are currently collaborating on research into the largest deposits in the Romanian part of the Black Sea shelf, which is an extension of the Skifska deposit.
- In order to attract foreign investors, Kyiv has introduced changes to the law, including giving up existing regulations requiring 50% of all extracted hydrocarbons to be sold on its internal market at regulated (low) prices.
- It is worth noting that Russian companies lost in both tenders, which is a sign of Ukraine's dissatisfaction with its cooperation with Russia so far. In early 2011, LUKoil signed an agreement with the Ukrainian Chernomornaftohaz company to conduct a joint search for gas and oil on the shelf, but this work has not commenced as yet.

[1] <http://www.osw.waw.pl/en/publikacje/eastweek/2012-01-25/ukraine-announces-a-limitation-and-diversification-its-gas-imports>