

Russia: Rosneft and ExxonMobil strike another deal

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On 16 April, Russia's Rosneft and America's ExxonMobil signed documents which laid out the details of the agreements on the strategic co-operation and joint projects of the two companies, signed in January 2011 (on the Russian Black Sea shelf) and in August 2011 (on the Kara Sea in the Arctic). The deal was concluded in the presence of Prime Minister Vladimir Putin. These documents specify the stakes held by the two signatories of the joint venture (Rosneft holds 66.7% of the shares and ExxonMobil holds 33.3%) which is to implement projects in Russia, the USA and Canada.

In Russia, the joint venture will deal with the exploration and development of hydrocarbon deposits on the shelves of the Black Sea (the estimated reserves are 1.2 billion tonnes of oil equivalent; the estimated investment cost is US\$50 billion) and of the Kara Sea (the estimated oil reserves are approximately 5 billion tonnes, the estimated gas reserves are over 8 trillion m³; the estimated cost is US\$200–300 billion). The total value of the investments in joint projects on the Russian sea shelf, including infrastructure, looks set to exceed US\$500 billion within a thirty year timeframe. The agreement also envisages common work on technologies for the development of difficult-to-access oil fields in Western Siberia (total deposits of around 1.7 billion tonnes), and the possibility for ExxonMobil to participate in production on these fields in the future.

ExxonMobil has given Rosneft participation in its projects in: Texas (30% in a project involving the extraction of difficult-to-access oil), in the Gulf of Mexico (30% in the twenty oil fields owned by ExxonMobil) and 30% in the project covering the extraction of shale oil in the Canadian province of Alberta.

The joint venture is to commence its operation this year. ExxonMobil has declared its readiness to finance (over US\$3.2 billion) the first joint activity, geological research on the Russian continental shelf.

Commentary

- Sharing the financing and the risk related to the implementation of the difficult and expensive projects on the Russian continental shelf with ExxonMobil is obviously beneficial for Rosneft. It will also gain access to cutting-edge technologies and may capitalise on its partner's experience in carrying through sea shelf projects. Another important aspect of the deal may also be gaining experience of direct participation in a project involving the production of shale oil. Furthermore, ExxonMobil's participation in these projects also means Rosneft will raise its status as a global corporation.

- The main benefit ExxonMobil would gain from co-operation with Rosneft would be receiving access to the vast reserves of raw materials in Russia. Apart from this, the tangible benefits of its engagement in the Russian projects are not so obvious. There are too many unknowns – starting from the real volume of the reserves up to the still unassessed ecological risk of their implementation. The estimated investment volumes (quoted from Russian politicians) are uncertain and, as it seems, are calculated in such a way as to emphasise the scale of the plans and the potential of Russian reserves.
- Rosneft's deal with ExxonMobil fits in with the Russian concept of developing its continental shelf as a priority task in the development of the Russian oil and gas sector. The main goal for the Russian government is to increase the chance for the implementation of this concept through engaging top global corporations in it; including the largest US company.
- Production on the Russian Arctic shelf can be economically feasible with significant tax reliefs granted. Special tax preferences for state-controlled companies engaged in projects on the continental shelf were promised in the ordinance signed by Prime Minister Vladimir Putin on 17 April. Another condition necessary for these projects to be cost-efficient is for oil and gas prices to remain at a stable high level for a long time. This is an additional element of the risk inherent in its implementation.