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Rosneft's agreement with ExxonMobil on cooperation in the Arctic

Wojciech Konończuk

On 30 August, the heads of Rosneft, the largest Russian oil company, and the American ExxonMobil signed an agreement in the presence of Prime Minister Vladimir Putin on the joint exploitation of three energy deposits in the Arctic Kara Sea. Russia estimates the combined resources of these deposits at about 5 billion tons of oil and 10 trillion m³ of gas. According to the agreement, a joint company will be created in which Rosneft and ExxonMobil will own 66.67% and 33.33% of shares respectively. During the first stage, the new company's task will be to search for raw material, a process in which the American company will invest US$2.2 billion. However, the agreement is not limited to co-operation in the Arctic; it states that ExxonMobil will give Rosneft minority stakes in six of their deposits in the US, Canada and other regions around the world which have not been specified in the agreement. It also envisages joint operation of the Black Sea shelf (on the Tuapse Trough), which was agreed in January this year, and whose resources could contain 1.2 billion tons of oil. ExxonMobil will also take 33.3% of the company's shares and spend US$1 billion on investments in search of raw materials. The agreement also provides for the creation of a joint venture to extract the hard-to-access tight oil in Western Siberia, and the construction of an Arctic research centre in St. Petersburg.

The agreement is similar to the one between Rosneft and BP which was signed in January this year, but which was not implemented and has now expired. However, this new agreement does not provide for any exchange of shares between the corporations. After the failure of its cooperation with the British company, Rosneft's aim was to sign a contract with another large Western company with appropriate technology and capital resources.

Comment

- ExxonMobil's quick signature on the contract is a major success for Rosneft, thanks to which it will have access to unique technology for extracting raw materials, available to only a few companies in the world (none of them Russian). Acquiring shares in six of ExxonMobil's foreign projects will significantly expand Rosneft's international presence.

- From Russia's viewpoint, the agreement is an important signal to foreign investors, proving that the country is open to investments in its strategic energy sector. This is important for Moscow, as extraction of raw materials may start to fall over the next few years.

- For ExxonMobil, this long-term commitment to the project in the Russian Arctic means access to the world's largest untapped region of enormous potential energy resources, which may positively affect the company's capitalisation. At the same time, over the next twenty to thirty years the American company will be forced to participate in massive investment, which PM Putin has estimated at up to US$500 billion. Moreover, the actual mining of the raw materials, whose resources are still unconfirmed, may only begin about the year 2030. Projects in Russia are also burdened with political risk, and getting a return on the investment will depend on changes in Russian tax legislation, which may affect the contract's chances of being implemented.

- This agreement is in both companies' interest, though in the coming years it is mainly the Russians who will benefit from it directly. The agreement further strengthens the existing cooperation between Rosneft and ExxonMobil (both companies are shareholders in the Sakhalin-1 oil and gas project), and in the long run could positively influence political cooperation between Moscow and Washington (ExxonMobil, as an influential company and a shareholder of important assets in Russia, could become a lobbyist for good Russian-American relations).

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