

LUKoil Could Be Seeking Tax Break for Caspian Oil

By [The Moscow Times](#)

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LUKoil is producing almost no oil at its Caspian field four months into the official start of its key growth project, data showed, as analysts said the oil major may stall output awaiting tax breaks.

"We saw the same situation with the South Khylochuy field when production simmered until LUKoil got breaks on the mineral extraction tax," said Valery Nesterov, an analyst at Troika Dialog.

LUKoil, the country's second-largest oil producer, has been pressing the government to introduce tax breaks for its Caspian project for months.

LUKoil's president, Vagit Alekperov, told Reuters on Tuesday that the government was prepared to lower export tariffs paid on oil extracted from the Korchagin field from Jan 1.

"The export tax on crude is very high, so why not hold off? If LUKoil gets the same discounted rate as the East Siberian producers for their Caspian field, they will pay almost 70 percent less in taxes," said Denis Borisov, an analyst at Bank of Moscow.

The company launched the Korchagin field, Russia's first offshore Caspian Sea project, in April, saying the development was key to future growth and inviting Prime Minister Vladimir Putin to attend the event.

But the Energy Ministry's monthly data have shown almost no production since.

"If the infrastructure is in place and you have already announced the launch of commercial production, it is weird to not to produce crude," said Maria Radina, an oil analyst at Nomura.

"Not producing could add downside risk to our crude oil production estimate for LUKoil this year," she said.

Between its April launch and July, the LUKoil subsidiary responsible for the field, which holds estimated reserves of 570 million barrels of oil equivalent, produced only 500 metric tons (3,665 barrels) of oil, according to data.

Ministry data showed zero output in July.

On Thursday, August data showed that the subsidiary, LUKoil-Nizhnevolzhskneft, produced 14,500 tons since April, of which 7,100 tons was in August.

That contrasts sharply with initial plans. In April, LUKoil said its would produce 343,000 tons (2.5 million barrels) in 2010. Analysts said they included this figure in their calculations.

LUKoil questioned why Energy Ministry data showed no production, but stopped short of giving actual volumes.

"We already have the first oil, and so it seems [the Energy Ministry] just didn't include this particular data," vice president Leonid Fedun said last week in response to an analyst's question.

The Energy Ministry said the data were accurate.

"We receive all the production data ... from the companies themselves," the acting head of the ministry's dispatching unit told Reuters.

A LUKoil spokesman in Moscow said he does not comment on production data, but noted that the first tanker would be loaded at the field in the first half of October.

Nesterov noted that LUKoil's production in the Arctic Timan-Pechora basin some years ago also declined shortly before the government introduced a zero-tax regime for the region, rising steeply thereafter.

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