

\$27Bln Yamal LNG Plan May Earn Tax Break

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The Finance Ministry on Monday published a bill that would introduce a tax holiday for companies that extract natural gas on the remote Yamal Peninsula and liquefy it for shipment by tanker.

If it becomes law, the bill will provide much-needed support to plans by Novatek to build a multibillion-dollar liquefied natural gas, or LNG, plant in Yamal in conjunction with foreign partners. Developers face a host of logistical problems, including freezing temperatures, in accessing Yamal's fossil fuel reserves.

In a statement released on the ministry's web site, it said LNG production in Yamal would involve capital expenditure of upward of 850 billion rubles, or \$27.2 billion. Previous estimates by experts and officials were upward of \$20 billion.

Posted on the ministry's web site, the bill stipulates for a zero rate of the gas extraction tax for

12 years for gas lifted from under the Yamalo-Nenets autonomous district and used for liquefaction. The tax holiday would cease if the cumulative amount of extracted gas at a field tops 250 billion cubic meters.

The law would come into force Jan. 1, 2012.

A Novatek spokesman, Denis Solovyov, said Monday that any comment was premature before the bill collects approvals from the parliament and the president.

“When there is a decision, then there will be something to comment on,” he said.

Novatek, the biggest independent gas producer in Russia, is preparing to develop its LNG project to exploit the giant South Tambey field, estimated to hold 1.3 trillion cubic meters of gas in proved reserves. If given the go-ahead, it would be Russia's second LNG plant, after Gazprom's Sakhalin-2 venture, which supplies 5 percent of the global market.

Novatek may start production at the plant as soon as 2016, chief executive Leonid Mikhelson said in October. The project aims to export 15 million tons of LNG, or 20.4 bcm of natural gas, a year to Asian and European markets.

Without the tax breaks, said Alexei Kokin, an analyst at the international investment group Metropol, “this would be a loss-making project.”

Under the bill, Novatek would save at least 59 billion rubles during the tax holiday at the tax rate of 237 rubles per 1,000 cubic meters of gas, which is set for next year.

Foreign companies such as France's Total and Britain's and Holland's Royal Dutch Shell have expressed interest in joining the project.

Prime Minister Vladimir Putin agreed to a proposal to introduce a tax holiday in Yamal when he held a meeting on the long-term development of the gas industry in October. He then instructed the Finance Ministry, the Economic Development Ministry and the Energy Ministry to work together on submitting the proposal to the Cabinet before the year's end.

The Finance Ministry's bill will also apply the tax holiday to natural gas condensate extracted in Yamal. The upper limit of extraction, which would mark the end of the tax holiday in the case of condensate, is 20 million tons.

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