

LUKoil Looking to Invest in U.S. Shale Industry

By [The Moscow Times](#)

March 09, 2011

The  **Moscow Times**

HOUSTON — LUKoil is scouting for oil and natural gas investments in U.S. shale fields, said its president, Vagit Alekperov.

"If we are lucky in identifying a good partner, we are ready to be actively involved in the U.S.," Alekperov said in an interview Tuesday at CERAWEEK, a Houston conference held by IHS Cambridge Energy Research Associates.

Alekperov joins a line of companies looking at the North American shale industry, as much to get the drilling technology as the oil and gas. ExxonMobil bought shale gas producer XTO Energy for \$34.8 billion last June. PetroChina last month made its biggest overseas investment of \$5.4 billion for a stake in Encana's Canada shale field.

Shale formations consist of dense rock that can be broken apart to release trapped oil and gas. Advances in directional drilling and so-called hydraulic fracturing techniques have increased

production from shale fields. Hydraulic fracturing injects water, sand and chemicals into the rock to crack it.

Alekperov said he wants to be able to apply those techniques to oil-rich shale deposits in Russia. LUKoil is already experimenting in the Bazhenov formation in West Siberia, which has "huge resources of liquid hydrocarbons," he said.

LUKoil is hunting for new ways to recover oil as it finds itself at "a crossroads," according to Thane Gustafson, a Russia specialist for energy consultants IHS CERA.

Russia raised production to more than 10 million barrels per day from about 6.2 million bpd in 1999 by applying techniques such as water flooding and directional drilling to old Soviet-era fields. Now the payoff from such techniques is declining in mature areas such as West Siberia, Alekperov said.

Russia needs an infusion of Western technology and capital to explore for and develop resources in the Arctic and East Siberia, Alekperov said.

After a lull of several years, Russia has seen a burst of transactions this year.

BP agreed to a \$7.8 billion stock swap with state-controlled Rosneft, though BP's Russian partners in TNK-BP are challenging it. On March 3, France's Total agreed to pay \$4 billion for 12 percent of Russia's Novatek. Both groups aim to develop fields in the Russian Arctic.

LUKoil pioneered such transactions, with ConocoPhillips taking a stake that at one point reached 20 percent. ConocoPhillips has since sold out as part of a larger asset-disposal program. Alekperov said he didn't need a new partner to replace ConocoPhillips, saying LUKoil obtained the know-how it needed from service companies such as Baker Hughes and Halliburton.

Joint ventures will continue to be used by international oil and gas companies wanting to acquire shale acreage in the United States, Michael Wang, a research director for IHS Herold, said Tuesday at the CERAWEEK conference.

Meanwhile, the deals keep coming. Last month, Australia's BHP Billiton, the world's biggest mining company, agreed to buy Chesapeake Energy's Arkansas shale gas assets for \$4.75 billion.

In the same month, Chevron completed its \$3.58 billion purchase of Atlas Energy to add acreage in the gas-rich Marcellus Shale in the U.S. East.

Quebec's environmental assessment bureau recommended in a government report released Wednesday to halt natural gas exploration and production in Canadian shale fields until more study provides a better understanding of the environmental impacts of hydraulic fracturing, Bloomberg reported.

The investigation was requested by the Quebec ministry of natural resources and environment following months of criticism from environmental groups about the potential contamination of drinking-water supplies. The report underscored the need for strict monitoring and regulation of the industry.

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