

Statoil Presses for Shtokman Decision

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Norway's Statoil has said a Russian government guarantee of tax breaks for the Shtokman gas field is urgently required if a final investment decision on the project is to be made before the end of the year as planned.

The enormous Shtokman field, 600 kilometers from land in the ice-infested waters of the Barents Sea, could supply the whole world's gas needs for a year, but formidable technical challenges and the dynamics of the world market have forced repeated postponements to a shareholder commitment to proceed with its development.

Gazprom is the operator of the Shtokman project, in conjunction with Norway's Statoil and France's Total. The companies are currently negotiating between themselves and with the Russian government over the undertaking's financial structure.

The president of Statoil in Russia, Jan Helge Skogen, told The Moscow Times on the sidelines of the second Norwegian-Russian Business Forum on Thursday that the company was "trying to communicate a sense of urgency" to the talks.

Skogen said "significant fiscal relief" — in the form of discounted rates of mineral extraction tax and gas export duty — was required from the Russian federal government.

"The project as it is today is not commercially viable," Skogen told the 300 gathered representatives of Russian and Norwegian business and politics in Moscow in a speech. "It is critical that things now fall into place."

The Norwegian government, 67 percent owners of Statoil, also pressed for a decision. "It is essential that the Shtokman project produces a return on investment," said Trond Giske, Norway's minister of trade and industry.

Shtokman holds 3.9 trillion cubic meters of gas and 53.3 million tons of condensate. A final investment decision had been planned for May of this year, but was postponed.

Gazprom stated in a press release that its head Alexei Miller and the presidents of Total and Statoil held a meeting on Oct. 13 to discuss the future of Shtokman.

On Oct. 18, Deputy Energy Minister Anatoly Yanovsky said he expected the government to announce tax breaks for Shtokman within a month and a half.

But Statoil's words Thursday suggest that there is still concern in Oslo that the Russian government is not prepared to deliver the financial assistance that Norway considers necessary.

Increased global gas production, particularly shale gas in the United States, has fueled fears in Moscow that there will not be sufficient demand to make Shtokman profitable. The United States was anticipated to be one of the main destinations of Shtokman liquefied natural gas, but shale gas technology has largely closed off demand for LNG.

Skogen said it was natural to expect tax breaks for a project as large as Shtokman. "Because of its size, location and pioneering setting, Shtokman is breaking new barriers in establishing infrastructure — and you need governmental support," he said.

Skogen also argued that the development of Shtokman would not only be profitable in its own right, but could be the basis for Russia to take further steps in exploiting the Arctic's hydrocarbons.

In addition to being a major part of the economic cooperation between Russia and Norway, Shtokman is also important for commercial ties between the two countries.

Jarle Forbord, managing director of the Norwegian-Russian Chamber of Commerce, told The Moscow Times that a final investment decision would be a "big boost" for Russo-Norwegian relations.

If undertaken, the project would "become a driver for development in northwest Russia," he added.

Shtokman is particularly important for Norway, which is seeking to sell its significant offshore drilling experience in the Arctic to Russia and become an integral part of any large-scale energy ventures on the Russian Arctic shelf.

The first gas to be pumped from Shtokman is currently expected in 2016. At present, Norway is the world's second-biggest gas exporting country after Russia.

But First Deputy Prime Minister and Gazprom chairman Viktor Zubkov, who also addressed the conference Thursday, stepped back from promising that a resolution to the vacillation over Shtokman was imminent.

"By the end of the year, all questions pertaining to investment should be decided," he said. "We must continue this cooperation."

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