

Gazprom Grabs Old TNK-BP Field

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Gazprom outbid another government-controlled contender Tuesday for the right to develop the huge Kovykta field near China's border, ending years of uncertainty about the prize natural gas asset formerly co-owned by BP.

TNK-BP, a joint venture between the British oil major and a group of Russian billionaires, had to bankrupt the company that owned the Kovykta rights in an effort to recoup its investment, which went wrong after the government hampered plans for China exports years ago.

Kovykta could be useful for Gazprom, as it says it is inching closer to its own deal to supply China.

Gazprom emerged the winner in the Kovykta bidding, where it faced off with a unit of Rosneftegaz, a state-owned holding company that owns 75 percent of the country's biggest oil producer Rosneft, said bidding manager Oleg Smetanin. TNK-BP chief financial officer Jonathan Muir said the company was happy with the highest bid of 22.3 billion rubles (\$777 million).

Formally, Gazprom bought from bankrupt Russia Petroleum the property on the field, which excludes the license to develop the rich gas deposits of 1.9 trillion cubic meters. The gas export monopoly can, however, ask the Federal Subsoil Resource Use Agency to reissue the license in its name after the acquisition, said Natural Resources and Environment Ministry spokeswoman Yelena Koverga.

"The license will then be reissued," she told The Moscow Times. "The law stipulates for this type of procedure."

Gazprom spokesman Igor Volobuyev declined comment on the deal Tuesday.

Gazprom chief Alexei Miller, in his latest statement on Kovykta in October, said Gazprom wouldn't want to develop the field until 2018. He made the comment even as the company aimed to agree on the price of potential supplies to China this coming July to start sales in 2015.

Gazprom now plans to use its West Siberian fields to feed a yet-to-be-built pipeline to China. Kovykta lies in East Siberia.

Gazprom could rethink the future of Kovykta if it finds it cheaper to use the field's gas in the China deal, if it materializes, said Alexander Nazarov, an analyst at Metropol. It would take three years to produce first gas at Kovykta, he estimated.

Artyom Konchin, an analyst at UniCredit Securities, said it made more sense to Gazprom to stick with its current plan for tapping West Siberian reserves for any deliveries to China.

"I don't see any advantages," he said about the option to use Kovykta instead.

Even if Gazprom has no plans to develop Kovykta in the immediate future, it may have taken pains to acquire the field simply to stave off Rosneftegaz &mdash and Rosneft — from gaining a high-profile natural gas asset, Nazarov said.

Rosneftegaz, despite also owning 10 percent of Gazprom, is widely believed to have represented Rosneft in the bidding.

TNK-BP invested at least \$700 million in developing Kovykta, but the project stalled after the government designated Gazprom a monopoly to export natural gas, in a 2006 law that was a lethal blow to the TNK-BP plan to pump the fuel from the field to China.

As a result of the legislative change, TNK-BP failed to raise production at the field as high as the license terms required, prompting threats from the government to revoke the license. The company agreed in 2007 to sell its 63 percent Russia Petroleum stake to Gazprom for \$700 million to \$900 million, but the deal fell through without explanation from either side.

Russia Petroleum filed for bankruptcy after TNK-BP in May demanded repayment of the loans it provided to develop the field. Russia's other shareholders are electricity company OGK-3, with 25 percent, and the Irkutsk regional government, with 11 percent.

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