

## Russia Delays Decision on BP License for \$18 Billion Gas Field

By Torrey Clark

June 1 (Bloomberg) -- Russia delayed a decision on revoking a license held by BP Plc's Russian unit to develop an \$18 billion Siberian gas field, indicating that negotiations may be continuing with the Kremlin.

A Natural Resources Ministry commission postponed the decision for two weeks because of the "complexity of the issue," Vladimir Bobylev, a spokesman for BP's venture, TNK-BP, said by telephone from Moscow, where company officials attended the commission's meeting today.

BP depends on Russia for a quarter of its production and 18 percent of its proven oil and gas reserves, and projects such as the Kovykta gas deposit promise future growth. The Natural Resources Ministry has threatened to revoke the license to Kovykta, held by TNK-BP's OAO Rusia Petroleum division, for more than four years.

An announcement on the decision will now come after President Vladimir Putin attends the Group of Eight summit in Germany and an international economic forum in his hometown, St. Petersburg, this week. European leaders have criticized Russia's growing state control of the energy industry.

"The delay indicates negotiations are continuing at a serious level, and Putin can attend the G-8 without facing sharp criticism," said Chris Weafer, the chief strategist at Moscow-based Alfa Bank, whose shareholders are among BP's partners in TNK-BP. "Investors are still hoping BP will gain something in exchange for losing control of the project," he said today.

### State Control

Putin's government has used tax, licensing and ecological audits to restore state dominance over the Russian oil industry, the world's biggest supplier this year. Royal Dutch Shell Plc ceded control of the \$22 billion Sakhalin-2 venture to state-run OAO Gazprom last year after months of pressure from regulators over environmental damage.

"The decision on Kovykta has been made, but not signed," Oleg Mitvol, deputy head of the Natural Resource Ministry's environmental inspectorate, said by telephone from Moscow today. "It will be announced after it is signed by the head of the subsoil agency." Mitvol, who led the campaign against Sakhalin, declined to elaborate on the decision.

The state controls more than one-third of Russia's 9.9 million barrels a day of oil output through Gazprom and OAO Rosneft. Rosneft has become the country's largest crude supplier this year, acquiring OAO Yukos Oil Co.'s oil assets as the government dismantles what was once Russia's largest crude exporter.

### Gazprom Rebuff

BP Chief Executive Officer Tony Hayward met with Gazprom CEO Alexei Miller in Moscow yesterday. Hayward failed to convince Gazprom to join the Kovykta project, daily newspaper Vedomosti reported today, citing unidentified Gazprom officials.

TNK-BP has sought Gazprom's support to build a pipeline to ship gas to China and Korea, a market that Gazprom is planning to supply itself. TNK-BP has invested about \$500 million in the project.

Gazprom has rebuffed TNK-BP's invitations to join Kovykta and even to take a controlling stake, saying there won't be demand for the fuel until at least 2015. Gazprom is developing two gas fields in eastern Siberia adjacent to Kovykta.

BP had sought close ties with the Kremlin. The British company bought \$1 billion of shares in Rosneft, whose chairman Igor Sechin is deputy chief of Putin's staff, during its July 2006 initial public offering.

TNK-BP legitimized Rosneft's purchase of its own shares at the first Yukos bankruptcy auction this year by bidding. TNK-BP dropped behind the state producer to take third place among Russia's top oil companies, after selling an oil unit to Rosneft last year.

#### TNK-BP Goodwill

That goodwill may help TNK-BP retain a stake in the Kovykta field, particularly if it offers Gazprom projects outside of Russia or if its Russian shareholders sell their half to Gazprom, Vladimir Matias, managing partner at Asset Capital Partners, said.

`` This is about cooperation between Gazprom and BP on a worldwide scale," Matias said in a television interview in Moscow.

Gazprom has said it will consider buying out the Russian investors, who include billionaires Mikhail Fridman and Viktor Vekselberg, when they're allowed to sell their holdings at the end of 2007.

TNK-BP's unit violated license requirements at Kovykta by failing to supply 9 billion cubic meters of gas a year to the Irkutsk region, Mitvol said after his staff finished their last review of the gas field on May 25. Mitvol recommended the subsoil resources agency revoke the Kovykta license.

`` If we look at the situation from the legal point of view, there's only one resolution," Mitvol said in an interview in Moscow yesterday. `` The company loses its license."

TNK-BP has defended the license, saying the terms require only that it meet the gas demand in Irkutsk. The company asked at least twice to have the government's 9 billion-cubic-meter estimate lowered, saying it's based on an unfulfilled plan to increase gas use in the region, where current demand is no more than 2.5 billion cubic meters a year.

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