

RUSSIA BEGINS ARCTIC DRILLING.

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British Petroleum and Rosneft announced that they have agreed a groundbreaking strategic global alliance. They are planning to explore and develop The Arctic Ocean to supply the world with oil and natural gas. Although The Arctic Ocean is a forbidding place for oil drillers, that is not stopping Russia. Maybe it is caused by the main reason as the Arctic holds one-fifth of the world's undiscovered, recoverable oil and natural gas and by its economy dependent on oil and gas, which make up about 60 percent of all Russian exports.

Russia, where onshore oil reserves are slowly dwindling, last month signed an Arctic exploration deal with the British petroleum giant BP, whose offshore drilling prospects in the United States were dimmed by the Gulf of Mexico disaster last year. Other Western oil companies, recognizing Moscow's openness to new ocean drilling, are now having similar discussions with Russia.

Rosneft is Russia's leading oil producing company. It produces some 2.4 million barrels(boe) of oil per day, and has reserves of 15.146 billion boe. It produces oil in all key regions of Russia. Rosneft reported profits for the year end 31 December 2009 of \$8,519m and gross assets (as at 30 September 2010) of \$87,984m.

Rosneft and BP have agreed to explore and develop three license blocks - EPNZ (East-Prinovozemelsky field) 1,2,3 – on the Russian Arctic continental shelf. These licenses were awarded to Rosneft in 2010 and cover approximately 125,000 square kilometres in a highly prospective area of the South Kara Sea. This is an area roughly equivalent in size to the UK North Sea.

BP and Rosneft have also agreed to establish an Arctic technology centre in Russia which will work with leading Russian and international research institutes, design bureaus and universities to develop technologies and engineering practices for the safe extraction of hydrocarbon resources from the Arctic shelf. The technology centre will build on BP's deep offshore experience with full emphasis on safety, environmental integrity and emergency spill response capability.

New oil from Russia could prove vital to world supplies in coming decades, now that it has surpassed Saudi Arabia as the world's biggest oil producer, and as long as global demand for oil continues to rise.

But as the offshore Russian efforts proceed, the oil companies will be venturing where other big countries ringing the Arctic Ocean — most notably the United States and Canada — have been wary of letting oil field development proceed, for both safety and environmental reasons.

After the BP accident in the gulf last year highlighted the consequences of a catastrophic ocean spill, American and Canadian regulators focused on the special challenges in the Arctic.

The ice pack and icebergs pose various threats to drilling rigs and crews. And if oil were spilled in the winter, cleanup would take place in the total darkness that engulfs the region during those months.

Earlier this month, Royal Dutch Shell postponed plans for drilling off Alaska's Arctic coast, as the company continued to face hurdles from wary Washington regulators.

The Russians, who control far more prospective drilling area in the Arctic Ocean than the United States and Canada combined, take a far different view.

As its Siberian oil fields mature, daily output in Russia, without new development, could be reduced by nearly a million barrels by the year 2035, according to the International Energy Agency. With its economy dependent on oil and gas, which make up about 60 percent of all exports, Russia sees little choice but to go offshore — using foreign partners to provide expertise and share the billions of dollars in development costs.

And if anything, the gulf disaster encouraged Russia to push ahead with BP as its first partner. In the view of Russia's prime minister, Vladimir V. Putin, BP is the safest company to hire for offshore work today, having learned its lesson in the gulf.

"One beaten man is worth two unbeaten men," Mr. Putin said, citing a Russian proverb, after BP signed its Arctic deal with Rosneft, the Russian state-owned oil company. The joint venture calls for the companies to explore three sections in the Kara Sea, an icebound coastal backwater north of central Russia.

The BP agreement touched off little public reaction in Russia, in part because the environmental movement is weak but also because opposition politicians have no way to block or hinder the process.

The Arctic holds one-fifth of the world's undiscovered, recoverable oil and natural gas, the United States Geological Survey estimates. According to a 2009 report by the Energy Department, 43 of the 61 significant Arctic oil and gas fields are in Russia. The Russian side of the Arctic is particularly rich in natural gas, while the North American side is richer in oil.

While the United States and Canada balk, other countries are clearing Arctic space for the industry. Norway, which last year settled a territorial dispute with Russia, is preparing to open new Arctic areas for drilling.

Last year Greenland allowed Cairn Energy to do some preliminary drilling. Cairn, a Scottish company, is planning four more wells this year, while Exxon Mobil, Chevron and Shell are also expected to drill in the area over the next few years.

But of the five countries with Arctic Ocean coastline, Russia has the most at stake in exploring and developing the region.

"Russia is one of the fundamental building blocks in world oil supply," said Daniel Yergin, the oil historian and chairman of IHS Cambridge Energy Research Associates. "It has a critical role in the global energy balance. The Arctic will be one of the critical factors in determining how much oil Russia is producing in 15 years and exporting to the rest of the world".

Following the template of the BP deal, Rosneft is negotiating joint venture agreements with other major oil companies shut out of North America and intent on exploring the Arctic continental shelf off Russia's northern coast. That includes Shell, its chief executive said last month. Rosneft's chief executive, Eduard Y. Khudainatov, said other foreign oil company representatives were lining up outside his office these days.

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