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LUKoil to Get Caspian Tax Breaks

By The Moscow Times

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The chief executive of LUKoil, Russia's No. 2 oil company, said Tuesday that the government was ready to introduce tax breaks for oil extracted from its Korchagin fields in the Caspian Sea from Jan. 1.

Unlike greenfields in East Siberia being developed by competitors Rosneft and TNK-BP, LUKoil's Korchagin field does not currently benefit from tax breaks on export duties.

In an interview, Vagit Alekperov also said the company's investment program would reach up to $10 billion annually in coming years and that it would not do business with Iran while sanctions are in place.

The company now will look to pay more attention to upstream projects and take part in the auction of the giant Trebs and Titov oil fields in Arctic East Siberia later this year, he said. "Because we will decrease investments in downstream, we will increase investment into upstream projects," he added.

The LUKoil head also confirmed an earlier report that the foreign stakeholders in Kazakhstan's Karachaganak gas field have agreed to cut their stakes and relinquish 10 percent of the company to the Kazakh government.

Alekperov, who has been at LUKoil's helm since the company's foundation in 1993 and who turns 60 on Sept. 1, said he plans to remain active at LUKoil in coming years and dismissed reports that he would soon leave his post as CEO.

"I'm not going to step out of my active role in the LUKoil company since we are now facing a new stage of development. We are starting to work without a strategic investor. We are preparing a new development strategy," he said.

Alekperov, a Soviet oil industry veteran, has withstood many political storms and industry reshuffles since he left his position as deputy energy minister to become LUKoil's chief in 1993 after masterminding its privatization.

Today, he is LUKoil's largest stockholder with a stake of more than 20 percent and is ranked Russia's sixth-richest man, with personal wealth of $10.6 billion.

LUKoil has been lobbying for export duty breaks for its Korchagin field after launching production there in April and spending more than 40 billion rubles ($1.3 billion) over 15 years to get it commissioned.

"There was a meeting [in the Russian government], and there was a decision to introduce a tax break for the Korchagin field from Jan. 1," Alekperov said.

The field will produce 2.5 million metric tons of crude per year, or about 50,000 barrels per day, at peak production. This year, its crude output is expected to be 343,000 tons.

Alekperov said he expected tax breaks for Caspian Sea production to be the same as those for new East Siberian deposits, about 70 percent less than regular crude oil export duty.

Analysts say tax breaks on exports from the technically challenging and investment-heavy Caspian fields are crucial for the profitability of the company, whose oil production has been falling so far this year.

LUKoil plans to launch the largest of its Caspian deposits, the Vladimir Filanovsky field, in 2014 or 2015. Annual output there is expected to reach 10.5 million tons.

As for the Karachaganak consortium in Kazakhstan, Alekperov said he expected that the partners, which include LUKoil, BG, ENI and Chevron, will hand over no more than 10 percent in the project to the government.

"We are engaged in a dialogue with the Kazakh government. I'm sure that we will find a consensus. ... I believe no more than 10 percent [will be ceded to Kazakhstan]," he said.

Last month, U.S. oil major ConocoPhillips said it would sell its entire 20 percent stake in LUKoil. In mid-August, the Russian company said it raised $1.5 billion in an unsecured loan to finance the repurchase of 40 percent of the stake, or 8.5 percent of its shares.

LUKoil has a 60-day option that expires Sept. 26 to buy back the remaining 11.61 percent, worth an estimated $5 billion, but Alekperov said he did not like the idea of burdening the firm's balance sheet with the additional share purchase.

"I think that the shares should be sold on the market in small portions," he said.