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Bashneft Poised to Win Arctic Fields

By The Moscow Times

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Bashneft is almost guaranteed to more than double its crude reserves after it became the solo contender for the huge Trebs and Titov oil fields in the Arctic, sources said Thursday.

Bashneft, controlled by industrial conglomerate Sistema, was left as the only remaining bidder for the fields after its rival, Surgutneftegaz, failed to pay the auction fees, two sources told Reuters.

A source in the Natural Resources and Environment Ministry said the auction, scheduled for Dec. 2, will go ahead despite Bashneft being the only contender. A spokesman at Rosnedra, the government agency responsible for subsoil licenses, declined to comment.

A Surgutneftegaz source said the company decided to drop the bid "as it wasn't viable." "There is no proper infrastructure in place," he said.

"Some investors may be disappointed by Surgut's failure to win the auction, though we were skeptical about the company's chances from the beginning," Alfa Bank said in a note.

The Trebs and Titov deposits are the largest unallotted hydrocarbon fields remaining in state reserves, holding an estimated 200 million metric tons of oil reserves. Initially, No. 2 oil producer LUKoil; TNK-BP, half-controlled by BP; Gazprom Neft; Surgutneftegaz; Bashneft; and India's Oil and Natural Gas Corp. placed their bids for the deposits.

But the Natural Resources and Environment Ministry only allowed Bashneft and Surgut to participate, deeming the other rivals' bids "inappropriate." "While the whole show around the field reflects poorly on the country and its business practices, the outcome, as we previously argued, could be positive for Bashneft," Troika Dialog brokerage said in a note.

The winner of the auction will have to abide by what analysts describe as stringent terms of ownership, including obligations to sell 15 percent of produced crude through oil exchanges and to push 42 percent through refineries.

Rosneft, the country's largest oil company, did not bid, but the firm's new president, Eduard Khudainatov, has said it would consider joining the project in the future.

Bashneft had proven oil reserves of 1.27 billion barrels as of Dec. 31. The new fields may add 1.47 billion barrels more. By comparison, Rosneft has proven reserves of 22.86 billion barrels of oil equivalent under the Petroleum Resources Management System methodology, a set of standards used to measure petroleum reserves.

Bashneft needs extra crude to feed its oil refineries and plans to raise its oil production to 15 million tons by 2013 from more than 13 million tons currently. The firm's long-term strategy is to raise output to 30 million tons.

At the moment, however, it still lacks enough upstream assets to satisfy its downstream annual capacity of more than 20 million tons, so it buys more barrels from Surgut, LUKoil and Shell's Russian assets.

Bashneft also holds 49 percent in another midsized oil company, Russneft.

"We are interested in Trebs and Titov fields in order to balance our upstream and downstream business," a Sistema spokeswoman told Reuters.

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