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Shell Discusses Asset Swap for LNG Role

By The Moscow Times

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Royal Dutch Shell may offer Gazprom assets in Asia in exchange for a deal to expand Russia's only liquefied gas export plant, part of talks on a wider global alliance.

Shell wants to add a third liquefied natural gas production unit at the $22 billion Sakhalin-2 venture north of Japan, raising output 50 percent.

The Hague-based company is selecting overseas assets to win support from Gazprom, said three people, declining to be identified because the plans are private. Shell may gain access to new offshore blocks to supply the plant.

The talks follow an agreement in November to expand cooperation between Europe's largest oil company and the gas export monopoly. Shell chief executive Peter Voser and Gazprom's Alexei Miller have set deadlines for the negotiations, one person said, without elaborating.

In addition to the talks on Sakhalin, the two companies are exchanging data on oil fields in West Siberia, where they run the Salym Petroleum venture, two people said. The November accord covered possible oil and gas projects in West Siberia, Russia's Far East and abroad, as well as European refining and retail.

Shell, which agreed to cede control of Sakhalin-2 to Gazprom in 2006 under government pressure, is pushing to expand the plant and win markets in China and India. Gazprom has held back on agreeing to expand Sakhalin-2 while it examines a rival plant near Vladivostok.

Shell is spending about $50 billion in Australia over the next decade to develop gas export projects. The company is also drilling for unconventional gas in China.

"As Gazprom wants to be a major player in the LNG markets, then I think Australia equity participation would be most obvious" as a candidate for the Russian company, said Oswald Clint, a senior analyst at Bernstein Research.

Prime Minister Vladimir Putin invited the explorer to participate in the nearby Sakhalin-3 and Sakhalin-4 oil and gas projects during a June 2009 meeting with Voser and then-chief executive Jeroen van der Veer.

The Sakhalin-2 plant started production in 2009, reaching reached full capacity last year and accounting for 5 percent of global production of the fuel, according to Shell. Gas may account for more than half of Shell's total production by 2012.

Vera Surzhenko, a spokeswoman at Shell in Moscow, said the companies are "considering opportunities" and declined to name any assets outside Russia that they may consider. Within Russia, Shell and Gazprom are looking at new projects on the basis of existing assets, she said, declining to elaborate. Sergei Kupriyanov, a Gazprom spokesman, and Denis Rebrov, a Gazprom Neft spokesman, declined to comment.

Gazprom owns 50 percent of Sakhalin Energy, the Sakhalin-2 operator. Shell holds 27.5 percent, and Mitsubishi Corp. and Mitsui & Co. also have stakes.

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