

TNK-BP R&D for 2011 at \$320M

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TNK-BP is emphasizing innovation as a way to maintain production levels and has quadrupled its year-on-year budget for the development of new technologies to \$320 million in 2011.

Current funding for research and development is 8 percent of the \$4 billion that Russia's third-largest oil producer allocates as capital expenditure annually. About 80 percent of this figure goes toward exploration and production.

Deputy chairman of the management board, Maxim Barsky, who is effectively responsible for day-to-day operational control of the company, told delegates Tuesday at TNK-BP's Second Annual Corporate Technology Forum at Skolkovo — Russia's answer to Silicon Valley — that over 1,000 wells had been drilled since January, of which 10 percent involved highly complex technologies.

"The effective application of technology ensures a slowing of the tempo of decline for mature fields," Barsky said. "Low-cost access to reserves allows us to exploit those reserves that

were formerly considered unprofitable.”

Mainstays of TNK-BP’s portfolio, like the aging but enormous Samotlor field in western Siberia, are a particular focus of this drive. Barsky singled out the BP-developed bright water technology, which harnesses the power of water to flush out oil from reservoirs, as a key development of recent years.

Emerson Milenski, adviser to TNK-BP’s upstream executive vice president, said \$85 million was spent on technological innovation last year, the majority of which went to pilot projects. In contrast, \$120 million of this year’s \$320 million budget had been devoted to developing successful pilots, or “scale-ups,” he said.

The world’s 10th-largest oil producer has also initiated an energy efficiency program to maximize profits. Mikhail Slobodin, executive vice president of gas and power, said the program had saved the company \$60 million this year.

The “60/66” tax changes introduced Saturday, after two years of discussion, will free up more funds for TNK-BP to invest in upstream development, senior vice president Francis Somer said.

TNK-BP has said the new 60 percent export duty on crude will boost profits by up to \$600 million. The company aims to spend \$45 billion on exploration and production over the next decade.

But the focus Tuesday on strategic development at TNK-BP is a respite from speculation about its long-term future.

Recent attention has been concentrated on shareholders — oil major BP and oligarch consortium Alfa, Access and Renova Group, or AAR — since BP tried to complete a \$16 billion Arctic deal with Rosneft, angering AAR and initiating ongoing litigation.

As a possible side effect of the conflict, BP recently announced a suspension of its activities with the Skolkovo Foundation, which is chaired by Renova head Viktor Vekselberg.

There is also a question mark over Barsky’s position and how it fits with Alfa oligarch Mikhail Fridman’s formal title of chief executive. Barsky said in July that he would leave the company if he is not officially made chief executive by the warring shareholders by the end of the year.

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