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No Shtokman Clarity This Year

By The Moscow Times

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A Finance Ministry official said the tax regime for the giant Shtokman gas field is unlikely to be spelled out in time for a final investment decision on the Arctic offshore project, which must be taken by the end of the year.

The State Duma lower house of parliament has adjourned for the Dec. 4 elections, meaning that no consideration of possible changes to the tax regime applying to the multibillion-dollar project is possible, the official told Reuters.

"We haven't discussed it yet. The time frame is not clear. They certainly will not get anything before the end of the year, because the Duma has closed," said Ilya Trunin, head of the tax, customs and tariffs department at the Finance Ministry.

The board of Gazprom-led Shtokman Development, in which Norway's Statoil and France's Total are junior partners, must meet before the end of the year to take the decision, which would launch full-scale development of the 3.9 trillion cubic meter Barents Sea field.

Making deadline for Shtokman — Gazprom's first big commercial project on the Arctic energy frontier — has always been seen as a difficult aim as the partners weigh uncertainty about demand and prices.

But in the complicated puzzle of Shtokman's economics, taxes have long been the biggest missing piece.

Statoil CEO Helge Lund has said repeatedly that Statoil cannot arrive at a decision without a clear definition of the fiscal regime for the project, which could be loss-making without significant tax breaks.

Last week, the prime ministers of Russia and France lent political backing to efforts to arrive at a final investment decision by the end of the year after a plea for tax breaks from the French side.

Total CEO Christophe de Margerie joked at an oil conference earlier this month that he would appreciate a phone call from anyone who had heard anything about the Shtokman tax terms.

Trunin said the gas project would enjoy a relatively light burden under Russia's existing gas tax regime, suggesting that the consortium's hope for relief from two key energy levies — mineral extraction tax and export duty — were unrealistic.

Shtokman's first-phase pipeline gas will be sold into well-established European markets for Russian gas, while subsequent output of liquefied natural gas, or LNG, would get more favorable treatment under the current tax regime.

"Gas has a low extraction tax rate as it is, and liquefied natural gas is not subject to export duty. Why cancel the 30 percent duty on gas if they are planning to build an LNG plant and export LNG?" Trunin asked.

Half of Shtokman's output is to be sold as pipeline gas, and half as LNG. Russia, in the process of forming its LNG strategy, only sells liquefied gas from a plant on the Pacific island of Sakhalin under a production-sharing agreement with Shell.

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