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# Putin, Oil Company Heads Acknowledge Mutual Need

By The Moscow Times

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ST. PETERSBURG — President Vladimir Putin left global oil executives in little doubt as to who was the master of the world's largest energy reserves at Russia's answer to Davos.

The sky over St. Petersburg was turning white at the end of the longest day of the year, and the financiers and leaders of global industry who had gathered as Putin's guests at this year's forum were retiring to lavish parties and rooftop bars.

But the chief executives of BP, ConocoPhillips, Shell and Chevron stood with a dozen colleagues in a dark, chairless foyer, shifting from foot to foot Thursday as they waited three hours for an audience.

"No one was angry," said a European chief executive as he whiled away the wait by hashing out an equipment issue with a colleague. "There was a lot to talk about."

Putin has kept them waiting in the past, both for meetings and for deals, sometimes for years as they struggled to find a way in with a government that controls access to some of the world's largest untapped oil and gas reserves.

Putin, whose conviction that strategic resources should be in the hands of the state was laid out in his doctoral dissertation, has shown a willingness in the past few months to share prospective oil riches on a scale unprecedented since Russia's early post-Soviet years.

Three Arctic drilling deals, brokered by Kremlin heavyweight Igor Sechin in the final days of Putin's four-year spell as prime minister, have opened up new possibilities after a decade in which Russia became a byword for resource nationalism.

The appeal of advanced Western technology needed to tap increasingly remote and challenging fields, and the attendant promise of a more modern, healthy economy has chipped away at the Kremlin's jealous guard of its natural resources.

It has also set off a debate about long-standing tax policies that are designed to skim off oil industry revenues but have proven costly in terms of investment in new barrels.

"What strikes me is that they are very much aware of the fact that they have to open up to other countries," Maria van der Hoeven, head of the International Energy Agency, said in an interview at the annual St. Petersburg International Economic Forum.

"It has to do with investments and it has to do with markets, with market diversification. They need to find the right methods to do that, the right regulatory framework to get the [international oil companies] coming into the country," she said.

When Putin finally joined the CEOs, he was at pains to be welcoming, first giving the floor to Peter Voser, the CEO of Shell, which has been identified in media reports as a potential new investor in Shtokman, a troubled Barents Sea gas project.

"Twenty-five percent of our oil is produced by companies with foreign partners. That should tell you how open our industry is to foreign capital. Not in all countries is there such broad participation by foreigners," he told the executives. "I just got back from Mexico, where the G20 was held, and [the oil industry] there is almost completely state-controlled. In a market-oriented country like Norway, there is really just one big company, Statoil."

Russia has one thing in common with those countries: declines in its old production base, though Russia has managed to keep pumping at ever higher rates, hitting post-Soviet output peaks thanks to new fields launched at great cost.

So it was that Sechin, a former military translator in Africa, found himself defending his decision to share the state oil company's reserves with foreigners at the company's annual meeting last week when a skeptical shareholder asked him whether such deals were in Russia's national interest.

His answer echoed a refrain that has been repeated since Rosneft first announced its intent to grant a foreign oil company access to a new hydrocarbon province that could harbor fields like the Soviet-era "super-giants" that sustained the country through its last decades: Our reserves, their capital, their risk and, most of all, their technology.

If the executives' long wait for Putin belied a welcoming stance, the body language with Exxon executives — notable by their absence at the table with Putin — has been easier to read.

CEO Rex Tillerson, who flew to a Black Sea refinery town this month at Rosneft's invitation for a strategy presentation with Putin, was photographed seated next to the Russian president, inclining his head for a private word.

Exxon executives were guests of honor at Rosneft's annual meeting, where Sechin had frank praise for the American major and its focus on delivering value to shareholders.

An executive at a rival major said he believed that was not what won over Sechin and his Kremlin patron. "They have really gone in with technology," the executive said.

The challenge faced by the Russian industry, said a source from a company with a long history in offshore drilling, is to move from standardized bulk drilling and top-down design decisions at old West Siberian fields to unpredictable environments and prospective projects where new technology must be developed and honed along the way.

Therein is the deep attraction of technology transfer for the Russian government, which is caught in a Catch-22 situation. With 50 percent of its budget revenue from energy, it can neither afford to let the industry stagnate, nor remain so heavily dependent on a volatile commodity.

Most immediately for Rosneft, it must invest in future output growth while simultaneously retooling its Soviet-built refineries to meet rising demand for high-specification gasoline and prevent politically damaging petrol shortages.

The order of the queue of executives at Rosneft's stand at the St. Petersburg convention center was telling. Behind Eni and Statoil, there to finalize their drilling deals, was Andrei Kostin, CEO of state bank VTB, on hand to sign a new financing deal to help build a new refinery near Moscow.

It was a reminder that, despite Rosneft's outward-looking stance of recent months, its concerns — and the Kremlin's — gravitate back to the domestic marketplace.

And with little to build on outside the energy industry besides a crippled Soviet industrial base and a small if growing band of entrepreneurs, the Kremlin must pin its hopes for a modern economy on its oldest resource of all.

"Russia's energy sector is, perhaps, now, and must remain over the near term, the driver for modernization of the country's economy," said Sechin.

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