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Surgutneftegaz Nears Decision on Exiting Venezuela Oil Project

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Surgutneftegaz has said its board will meet to discuss abandoning the National Oil Consortium, an association set up by Russia's five largest oil producers to develop Venezuela's Junin-6 oil field.

Privately owned oil producer Surgutneftegaz is on the verge of pulling out of Venezuela, another move that would pave the way for Rosneft to dominate Russia's oil business with that country.

Surgutneftegaz has said its board will convene Tuesday to consider abandoning the National Oil Consortium, according to a portal for corporate disclosures.

Set up by Russia's five largest oil producers in 2009, the consortium has the sole purpose to join forces with state energy company Petroleos de Venezuela to develop the Junin-6 oil field in the South American country. The first commercial oil from the deposit began flowing in September.

A Surgutneftegaz spokesman declined to comment Friday afternoon.

The key reason for leaving the project would likely be its less-than-rosy profit outlook, said Ildar Davletshin, an analyst at investment bank Investment Capital.

“Its profitability is very questionable,” he said.

With all the expenses that the project requires, the profit rate it will yield will be close to zero unless the Venezuelan government grants tax rebates, he said.

“Why hope for rebates when you can invest in something new?” Davletshin said.

The Junin-6 project stipulates that its developers will build a multibillion-dollar plant to upgrade the field’s heavy oil. The Venezuelan government promised that it would consider deductions on a number of taxes, including the royalty and oil production tax.

There were no reports that officials went through with any of the privileges.

Rosneft, LUKoil, TNK-BP, Surgutneftegaz and Gazprom Neft each own 8 percent of Petromiranda, the Venezuelan joint venture. Petroleos de Venezuela holds the remaining 60 percent.

A National Oil Consortium source said Surgutneftegaz will sell its Venezuelan stake to state-controlled Rosneft, RIA-Novosti reported in September.

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