

Offshore Oil Field Launch Highlights Russian Dependence on Foreign Technology

By [The Moscow Times](#)

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Rosneft and ExxonMobil's Berkut drilling platform in the Okhotsk Sea

With President Vladimir Putin watching from afar, the head of Rosneft, Igor Sechin, launched the world's biggest oil drilling platform in the Okhotsk Sea to warm handshakes with his colleagues from ExxonMobil.

Beamed live to the Kremlin on June 27, the event marked a major step in fulfilling the president's goal of increasing oil output, and the presence of U.S. executives seemed to support Putin's argument that Western sanctions were not hurting.

But partly built in South Korea, the more than 200,000 ton Berkut platform at the Sakhalin-1 project, led by Exxon, also highlighted the oil industry's dependence on foreign technology — something Washington could target if it decides to step up sanctions on Russia over its actions

in Ukraine.

It also underlines the difficulty for the Russian industry, despite years of attempts, to build its own services sector at a time the country needs to tap unconventional and Arctic reserves to compensate for the output drop from mature Siberian fields.

"Russian producers cannot compete in this sector with foreigners mostly because of a complete lack of similar [high-tech] goods," said Viktor Khaikov, vice-president of the Yugra Association of Oil and Gas Service Companies based in Russia's largest oil producing region in western Siberia.

Russia will be overtaken by the U.S. as the world's largest oil producer this year after a decade of global leadership and it will take years before it will be able to ramp up output from its shale formations or the Arctic.

The Berkut platform will add only 90,000 barrels per day within three years to Russia's total output, currently standing at about 10.5 million bpd. Russia hopes to produce more than 1 million bpd from shale and offshore sites in the medium term.

In May, Energy Minister Alexander Novak asked Putin to boost funding of domestic equipment producers saying that a quarter of all equipment used in oil output enhancement was imported and naming catalysts, refining equipment and gas turbine parts as the areas where Russia was most dependent on the West.

The remarks came just as the industry scrambled to assess the impact from sanctions that Washington could potentially impose on high-tech equipment exports into Russia should Moscow fail to help reduce tensions in eastern Ukraine.

VAGUE RESTRICTIONS

Some sanctions have been already put in place from April when the U.S. Department of Commerce's Bureau of Industry and Security, or BIS, announced that it would deny pending applications for licenses to export or re-export any high tech items that contribute to Russia's military capabilities.

Wynn Segall, partner at Akin Gump Strauss Hauer & Feld LLP in Washington, who specializes in international trade and sanctions, said the wording of these restrictions was vague.

For most Western companies, and especially American, that means refraining from doing business or slowing it while seeking maximum clarification.

Domestic companies dominate Russia's oil fields services market by revenue, according to privately owned service firm Integra. Eurasia Drilling Company, or EDC, has 15 percent of the market, followed by Surgutneftegaz and Gazprom with 10 percent.

Schlumberger, the world's No. 1 oil field services company by revenue has 9 percent, while Halliburton and Baker Hughes account for 1 percent each of a market estimated to be worth \$18 billion in 2013. According to Integra, it will grow to almost \$26 billion in 2017.

Halliburton, Schlumberger and Baker Hughes all declined to comment on the impact

of Russian sanctions. Halliburton said it would comply fully with all laws and trade restrictions and Schlumberger said the Russian market was highly competitive.

In its 2013 report, Schlumberger said Russia and Central Asia were the key drivers behind an 8 percent growth in revenues of its Europe, CIS and Africa division to \$12.4 billion, a third of its total revenues of \$45.3 billion.

Some companies such as Gazprom Neft say they have almost fully switched to local suppliers, spending 95 percent of its purchasing budget at home.

In May, Gazprom Neft signed agreements with Russia's United Heavy Machinery Plants, which produces drilling rigs and refining equipment, and Hydromashservice, a pump producer, for equipment for its onshore, offshore and refining operations.

Rosneft, which is developing its own oil service unit RN-Burenie, recently agreed with Gazprom, Novatek, Gazprombank and other firms to team up to build ships, drilling platforms and marine equipment.

Alexander Korsik, who heads Bashneft, Russia's fastest growing oil company by output, said sanctions on foreign equipment might push Russia closer to China.

"China will simply be seen as more reliable," he said.

In May, Russia signed a \$400 billion gas deal with China, but Moscow has so far been reluctant to allow China to develop its oil fields on a large scale.

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