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Exxon Halts Oil Drilling in Russia's Arctic Over U.S. Sanctions

By The Moscow Times

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Exxon is continuing exploration drilling in the Kara Sea.

WASHINGTON — Exxon Mobil said Friday it will wind down drilling in Russia's Arctic in the face of U.S. sanctions targeting Western cooperation with Moscow's oil sector, after the Obama administration granted a brief extension to safely mothball its operations.

Washington extended sanctions on Russia last week over its aggression in Ukraine. The new measures seek to stop billions of dollars worth of cooperation between Western and Russian energy companies on oil drilling in Russia's Arctic, in Siberia and offshore. Companies have until Sept. 26 to stop the work.

The U.S. Treasury Department gave Exxon a short extension to wind down a rig, beyond the 14 days outlined in the sanctions, the Texas-based oil major said on Friday without elaborating.

"Following the short time extension, the license is non-renewable and no further work is

permitted," Exxon spokesman Richard Keil told Reuters.

In July, Exxon began moving a rig called West Alpha from Norway to the Russian Arctic. The company is hoping for a major crude discovery in the Kara Sea with Russian state oil company Rosneft, with which it signed a $3.2 billion agreement in 2011 to develop the region.

Rosneft said Saturday that Exxon Mobil was still continuing exploration drilling in the Kara sea, echoing a statement by Russian Natural Resources Minister Sergei Donskoi on Friday.

Exxon said the Treasury granted a license to it and other U.S. contractors and individuals involved with the University-1 well, where the rig was drilling, "to enable the safe and responsible winding down of operations" related to the well.

The sanctions could affect other major oil companies, including BP and Royal Dutch Shell.

An analyst said Friday's move showed the Obama administration's willingness to tailor sanctions to accommodate challenges associated with complicated business projects in Russia.

"The flexibility it demonstrates offers serious relief to international oil and gas companies concerned about the reach and effect of tough U.S. sanctions," said Elizabeth Rosenberg, who worked on sanctions at the Treasury Department and now heads the energy program at the Center for a New American Security.

The Treasury Department said it does not comment on license applications or requests.

The U.S. sanctions seek to slow Russia's future oil production by banning U.S. and European Union cooperation on all energy services and technology in Russia's unconventional oil fields.

Russia is one of the world's top crude producers and the biggest supplier to Europe, but its reservoirs are in decline and it must look to new sources to retain its positions.

Delays in the Kara Sea

Before Exxon ceases operations, it must take measures to stabilize the well that could include plugging it with cement.

Investment bank Simmons said the Kara Sea well, estimated to cost over $600 million, is one of the most important exploration prospects in the oil industry.

The stoppage could delay plans for fully developing the Kara Sea fields in 2016 and 2017. Drilling results from the well had been expected to be revealed later this year, Simmons added.

A drillship owned by North Atlantic Drilling, a unit of Seadrill, had reportedly been hired to do the work for more than half a million dollars per day.

Sources close to the project have said Exxon has no U.S. personnel on the rig.

The prospect of sanctions on Russia has been a big issue for Exxon this year. It spent $6 million on lobbying the U.S. government in the first half of 2014, and listed Russian sanctions

as one of its lobbying issues, according to disclosures filed to the U.S. Senate.

Exxon also paid about another $170,000 to four outside firms for lobbying in the second quarter, largely tied to Russian sanctions, the disclosures show.

Exxon shares on Friday closed up about 0.5 percent on the New York Stock Exchange at $97.12.

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