

Russia Plans Giant State Oil Services Company to Replace Western Firms

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President Vladimir Putin has approved the creation of a state-owned oil exploration drilling corporation that will replace Western oil service companies forced to reduce operations in Russia by sanctions on Moscow over Ukraine, a news report said Monday.

In a time of "sharply escalating international tensions," a national oil service company uniting all necessary drilling and servicing expertise is crucial to ensure Russia can keep its hydrocarbon output stable in the long term, Deputy Prime Minister Alexander Khloponin wrote in a letter sent to Putin in September.

News agency RBC on Monday cited a copy of the letter already stamped with Putin's approval. The president's spokesman, Dmitry Peskov, refused to comment on the letter to news agency Interfax.

The new state company will be based on the assets of Rosgeologia, a fully government-owned agency that currently unites three dozen state-controlled exploration service companies, most of which date from the Soviet era. Government stakes in 15 other companies involved in shelf exploration would be handed over to the new corporation under the plan, Khloponin said in the letter.

Weeks earlier, a new round of sanctions imposed on Russia banned Western firms from supporting exploration or production of oil from deep water, Arctic offshore or shale projects. Some of Russia's hard-to-reach oil projects, where it heavily relies on Western expertise, will likely be delayed by the sanctions.

In the medium to long term, the sanctions are calculated to undermine the Russian oil industry's output volumes and hit the country's budget, which relies for 50 percent of its revenue on oil and gas exports.

Last month, Natural Resources Minister Sergei Donskoi said sanctions legitimized the creation of a national oil service company that would substitute for the expertise of Western service firms and make them "grind their teeth."

Western Pullout

In the recent years, major international oil service firms Halliburton, Weatherford, Schlumberger and Baker Hughes have been increasing their presence in Russia. According to estimates by the Oil & Gas Journal, their share of the market before sanctions were applied was about 18 percent. The servicing subsidiaries of Russian oil majors including LUKoil, Rosneft and Surgutneftegaz accounted for about 40 percent of the market.

With sanctions in place, international oil services firms have sharply scaled back their operations in Russia.

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Technical Challenges

According to the All-Russian Oil and Gas Scientific Research Institute, 60 percent of Russia's proven reserves are now in the hard-to-reach category. This is where Western companies were contracted to do the most difficult and expensive tasks, and this expertise cannot be replaced overnight, oil and gas analysts said.

"Russian companies can replace Western expertise but this will take time, as foreign majors have been developing their technology for decades," said Sergei Pikin, director of Moscow-based think tank the Energy Development Fund. If the government wants to boost Russian expertise, it should invest in research institutions and support private companies that have proven themselves more effective than state-owned giants, Pikin said.

Besides research institutes, a national oil service company would also need top professionals to develop new technology, said Rustam Tankayev, lead analyst at the Russian Union of Oil and Gas Producers. "And these require a very competitive salary the government cannot

usually offer," he added.

But even if it could, all the best staff are already employed by private Russian companies, which have in recent years ramped up research in advanced drilling techniques, Tankayev said.

Dissenting Voices

Inside the government, not everyone is in favor of creating a state oil servicing behemoth: Deputy Prime Minister Arkady Dvorkovich last week said the industry is working effectively without the help of such a corporation.

Oil companies executives have been skeptical of the idea as well. LUKoil's Alekperov earlier said the creation of such a corporation was "unacceptable."

"Over the last 20 years we have formed the oil service market and expect a large amount of companies to work in it, which will increase competitiveness," Alekperov was quoted by news agency TASS as saying last week.

Overall, there are about 200 oil service companies working on the Russian market, ranging from small firms to large corporations.

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