

Shell Says Quake May Spur Sakhalin LNG

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The nuclear crisis that followed an earthquake in Japan may help Shell's case in talks with Gazprom on new liquefaction capacity at their Pacific gas fields, Shell's Russia head said.

"This disaster, if you like, is an impetus to those discussions," said Royal Dutch Shell's Russia country chairman, Charles Watson, who flew into Japan 20 minutes before the earthquake hit and stayed there for five days.

"I got some sense of the social and economic shock it created," he said in an interview.

"Of course, the consequences are not yet clear, but it seems obvious that nuclear as part of the mix is now highly challenged and that there is an opportunity in the short term and in the longer term for more gas."

Shell's main asset in Russia, a stake in Sakhalin-2 established in the 1990s under a production sharing agreement, supplies 5 percent of the world's liquefied natural gas, or about 10 million metric tons a year.

Talks with Gazprom on expanding Sakhalin-2's liquefaction capacity to include a third train have been going on for some time.

Earlier this month, Sakhalin Deputy Governor Sergei Khotochin said the project's shareholders were looking to increase the liquefaction capacity of the plant by 50 percent to reach an annual project of 15 million tons. Sakhalin-2 is currently Russia's only LNG project.

Shell is also in talks with fast-growing independent gas producer Novatek to join Total as a foreign partner in Yamal LNG, Novatek's landmark Arctic extraction and liquefaction project. Sources have said Norway's StatoilHydro is also in advanced talks to join.

"We are in discussions with Novatek on joining the Yamal LNG project ... and we're talking about potential exploration with Rosneft in the offshore Arctic," Watson said.

He also said Shell, which operates a motor oil production facility in the town of Torzhok, is looking for downstream deals to pursue with Gazprom's oil arm, Gazprom Neft, which is Shell's partner in oil joint venture Salym Petroleum.

Following the earthquake, Gazprom, Shell and Japanese partners Mitsui and Mitsubishi Corp. in the Sakhalin-2 LNG project pledged two extra cargoes of LNG for Japan.

Japan's northern island of Hokkaido is just over 40 kilometers from Sakhalin, or a two-day trip by LNG tanker, making Russia the best suited neighbor to export its gas to Japan, the world's largest LNG importer.

Shell lost the operatorship of Sakhalin-2 to Gazprom after a dispute over investment and development of the project, in what was seen as a harbinger of tough times for foreign investors as the government sought to reassert control over natural resources.

But in the past three months, a flurry of drilling deals between state-owned Rosneft and foreign majors has shown a change in the stance of the government, which must help oil companies fight waning production and drill on more challenging terrain.

"Russia is open for business now," Watson said.

Russia is also struggling to maintain its share of the gas market in Europe, where Gazprom supplied about 25 percent of the total 560 billion cubic meters consumed last year.

"The optimal way for Europe to fulfill its energy policy is to increase its gas consumption, and Russia has every chance to maintain its very significant share of that total market. Therefore this energy [Yamal LNG] project out of the northwest is attractive," Watson said.

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