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## For Western Oil Companies, Expanding in Russia Is a Dance Around Sanctions

By ANDREW E. KRAMER and STANLEY REED

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Oil storage tanks in Siberia. Exxon Mobil and Rosneft are joining to explore the nearby Bazhenov shale formation.

Like many chief executives of American companies, Rex W. Tillerson of Exxon Mobil didn't attend the major business forum in Russia last month, at the urging of White House officials. But the company's exploration chief, Neil W. Duffin, did.

In a ceremony at the event, Mr. Duffin signed an agreement with Igor I. Sechin, the head of the state-owned Rosneft, to expand its joint ventures to drill offshore in the Arctic Ocean, to explore for shale oil in Siberia and to cooperate on a liquefied natural gas plant in Vladivostok.

The deal came just weeks after the United States government imposed sanctions on the personal dealings — though not the corporate activities — of Mr. Sechin, a former military intelligence agent and longtime aide to President Vladimir V. Putin.

Despite the push by Western governments to isolate Moscow for its aggression in Ukraine, energy giants are deepening their relationships with companies here by striking deals and plowing more money into the country.



As President Vladimir V. Putin of Russia watched, David Campbell, BP's Russia chief, left, signed a preliminary agreement in May with Igor Sechin, president of Rosneft, right, to study shale oil deposits.

Along with Exxon, BP of Britain and Total of France also signed contracts at the business forum in St. Petersburg to explore for shale oil in Russia. Exxon plans to drill its first exploratory well offshore in the Russian sector of the Arctic Ocean this summer. Statoil of Norway is in talks for another shale joint venture. Royal Dutch Shell's chief executive, Ben van Beurden, met with Mr. Putin in April and told him, "Now is the time to expand," referring to a liquefied natural gas plant project.

The companies are taking a calculated risk, given the threat of further sanctions. But they also want to protect their long-term interests in Russia, the world's largest energy-exporting nation.

"They are likely to continue to engage until there is a clear policy signal that they should stop. It is not rational to think they would act in any other way," said David L. Goldwyn, who served as the State Department's special envoy and coordinator for international energy affairs during President Obama's first term. "If the government wants them to stop, it needs to say louder they should stop."

Exxon declined to comment on the deal signed in St. Petersburg. Total and BP have emphasized that their agreements fully comply with sanctions.

So far, the United States and the European Union have imposed only limited sanctions, aimed largely at individual Russians and a handful of companies. The existing sanctions don't explicitly bar the energy giants from operating in Russia. Though Mr. Obama authorized an executive order on March 20 that could outlaw such deals, it has not yet been put into effect by the Treasury Department.

The risk for energy companies is that the next stage of sanctions, called the third phase, will be broader, cutting off dealings with major sectors of the economy like finance, metals and energy. The United States and its allies proposed such sanctions at a Group of 7 summit meeting in Brussels last week, to be carried out if the violence in Ukraine did not subside within a month.

While the companies are not violating the current rules, they are walking a fine geopolitical line.

At the St. Petersburg gathering on May 24, the British oil giant BP signed a \$300 million preliminary agreement with Rosneft to study shale oil deposits in the Volga Valley and Ural Mountains, west of the area where Exxon Mobil will be working. BP's chief executive, Robert W. Dudley, an American citizen, attended the forum. But David Campbell, BP's Russia chief and a British citizen, signed the agreement with Mr. Sechin.

Also at the business forum, Total signed a deal with Lukoil, another Russian oil company, for exploring more than 1,000 square miles of western Siberian wilderness for shale oil. "My message to Russia is simple — it is business as usual," Total's chief executive, Christophe de Margerie, told journalists there.

To keep it that way, oil companies are publicly and privately pushing back against more sanctions by speaking out at shareholders' meetings and by lobbying in Washington.

"We have a responsibility to stand with our partners in a difficult time," Mr. Dudley of BP told an audience at the St. Petersburg forum.

Mr. Tillerson, Exxon's chief executive, told reporters last week in Dallas that the company was making its skepticism about sanctions clear to the United States government. "Our views are being heard at the highest levels," he said.



Vladimir Putin shaking hands with Ben van Beurden, right, Shell's chief executive, in Moscow.

“There has been no impact on any of our business activities in Russia to this point, nor has there been any discernible impact on the relationship” with Rosneft, he added.

The energy giants, in part, are wary of offending their partners in Russia. Several big Western companies have large existing investments and important joint ventures in Russia that they want to protect from a government that is sometimes seen as fickle on property rights.

Exxon has a wide-ranging relationship with Rosneft, including existing oil production off Sakhalin Island in eastern Russia. BP has a nearly 20 percent stake in the Russian company. In all, Western energy companies have invested an estimated \$35 billion in Russia.

The future opportunities could prove even more valuable.

The recent agreements signed by BP, Exxon and Total will help Russia push its petroleum industry into the high-tech field of extracting oil from shale. The big Western companies mostly arrived late to the shale boom in the United States as smaller companies took the lead, and Russia, which geologists estimate has the greatest potential for shale outside of the United States, represents a chance to gain an early edge. In the last few years, shale formations like the Bakken in North Dakota and the Eagle Ford in Texas have added three million barrels a day to the oil output of the United States.

Exxon is also gaining access to offshore drilling sites in the Russian Arctic Ocean, while the waters off Alaska remain tied up in lawsuits and regulation. Exxon and Rosneft plan to drill the first exploratory well this summer in the Kara Sea, one of the shallow extensions of the Arctic Ocean north of Russia, where there could be enormous oil and gas resources.

And Exxon is joining with Rosneft to explore the Bazhenov shale formation in western Siberia, an area that has already produced tens of billions of barrels of oil through conventional drilling methods — a good sign for shale drillers, according to geologists. “Compared to other opportunities worldwide, Russia is certainly one of the most promising,” said John Webb, an analyst at the market research firm IHS who specializes in Russian energy.

Rosneft welcomed the deals: Extracting oil from these types of reserves represents a technical challenge, the statement said. “That is why Rosneft teamed up with the best international companies like Exxon Mobil and Statoil for the scope of exploring and producing those resources.”

The energy giants, in a sense, are betting that the Russian oil and gas industry will not be hit by direct sanctions.

The energy industry provides financing for the Russian government and military, making sanctions a threat to continued action in Ukraine. But the United States and Europe must tread carefully, given the industry’s major role in world markets.

From its swamps, tundra and wilderness, Russia pumps about the same volume of oil as Saudi Arabia, while exporting more energy than the desert kingdom, if oil and gas are counted together. Russia supplies about one-third of the gas to heat homes and generate electricity in Europe. And Russian oil and gas exports help ease energy reliance on the politically volatile Middle East.

For that reason, many analysts think Russian energy companies like Rosneft are simply too big to punish.

The companies are making “a hedged bet that the Russian energy sector will escape sanctions and the Ukraine crisis will quiet down,” said Cliff Kupchan, a Russia analyst at the Eurasia Group.