Rosneft and ExxonMobil detail partnership

Companies announce terms of strategic deals in Russia, North America

Moscow—Russia’s state-controlled Rosneft and US major ExxonMobil finalized April 16 their strategic partnership to develop oil and gas in Russia’s Arctic, with the initial cost of preliminary exploration estimated at over $3.2 billion.

The agreements, described by the companies in separate statements as “important milestones in this strategic relationship,” will also see Rosneft gain access to a number of ExxonMobil projects in North America, including in unconventional oil in Canada, in exchange for the Arctic deal.

The agreement follows an initial long-term strategic cooperation agreement concluded in August 2011, which itself followed the failed bid by BP to join Rosneft in an exploration venture at the Arctic blocks.

Rosneft and ExxonMobil then agreed to jointly explore the East Prinovozemelskii blocks 1, 2 and 3 in the Arctic Kara Sea and the Tuapse block in the Black Sea, putting total investments at $17 billion. Rosneft will have a 66.7% stake in the exploration venture, with ExxonMobil holding 33.3%.

“Today Rosneft and ExxonMobil enter offshore projects of unprecedented scale in the Russian Arctic and Black Sea regions, which are home to the world’s largest hydrocarbon resources base,” Rosneft President Eduard Khudainatov said.

“In so doing we lay the foundation for long-term growth of the Russian oil and gas industry. I am certain that 15 years of Rosneft and ExxonMobil partnership, as well as the use of the latest environmentally safe technologies and unique experience will allow Rosneft to become one of the global leaders in the oil and gas industry,” Khudainatov said.

In turn, ExxonMobil CEO Rex Tillerson said the agreements were “a critical step forward” in strategic cooperation.

“Our focus now will move to technical planning and execution of safe and environmentally responsible exploration activities with the goal of developing significant new energy supplies to meet growing global demand,” he said.

As part of the strategic partnership, Rosneft’s independent indirect Delaware-registered subsidiary, Neftegaz Holding America, (continued on page 8)

Buenos Aires sets plan to take over YPF, boost its output

Argentina’s government on April 16 announced plans for the federal and provincial takeover of YPF, the country’s biggest energy company, in a bid to turn around sagging domestic oil and natural gas output.

The executive branch will submit a bill to Congress for approval of the “expropriation” of shares held by Spain’s Repsol, according to a reading of the draft legislation in Buenos Aires.

This means Argentina and its provinces will acquire 51% of the 57.4% of YPF shares held by Repsol, while remaining shares will stay in the hands of other investors.

Repsol said in a statement late April 16 that it “will carry out all pertinent legal actions” to preserve the value of its assets. The company said its stake in YPF has a book value of 4.122 billion euro ($5.4143 billion) as of December 31.

The bill also is designed to declare hydrocarbons a “public service,” with the aim of rebuilding oil and gas production and reserves, which have dropped over the past decade on low investment by the private sector and led to a surge in energy imports. Argentina launched an attack on YPF and much of the oil sector early this year, blaming them for dwindling production that led to a 110% year-on-year surge in energy imports last year, led by diesel, fuel oil and gas.

The fingers were pointed hardest at YPF, Argentina launched an attack on YPF and led to a surge in energy imports, Argentina launched an attack on YPF and much of the oil sector early this year, blaming them for dwindling production that led to a 110% year-on-year surge in energy imports last year, led by diesel, fuel oil and gas.

The government slammed YPF for focusing the business on paying dividends instead of investing profits to boost output and even develop some of the world’s largest shale resources sitting under its fields.

YPF produces a third of the country’s 570,000 b/d of oil, close to a quarter of its 125 million cu m/d of gas and has a 50%-60% share of diesel and gasoline sales.

The government intends to turn things around with the takeover. (continued on page 11)
Argentina sets plan to take over YPF, boost its output

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Of the controlling stake in YPF, 51% will be held by the federal government and the rest by the provinces.

It was not immediately clear how the shares would be secured. The Argentine press suggested the acquisition price could be based on the highest price of the stock. YPF’s shares hit a peak of $52.30 in New York on March 4, 2011, meaning the state would pay $10.485 billion for the 51% stake, Infobae newswire reported, citing unnamed sources.

Attention will also be on the method of payment, with some analysts saying it could pay a mix of cash and bonds.

The takeover is widely expected to gain approval in Congress, where the ruling party has control of both houses. This means Repsol will retain about 6% of the company, while Grupo Petersen, a diversified, family-owned company, will retain 25%. The rest of the shares are traded publicly in Buenos Aires and New York.

Argentine President Cristina Fernandez de Kirchner, who spoke after the reading of the bill, was quick to try to quell any nervousness about the plans.

“We are not inventing anything,” she told a room full of cheering officials and supporters. “We are one of the only countries in the world that doesn’t run our own hydrocarbon sector.”

She listed countries from China to Colombia, Chile, Malaysia, Mexico, Russia and Qatar where the state controls the oil industry, highlighting the achievements of Norway’s Statoil for building a fund out of oil profits for social welfare.

“Statoil is a very interesting model,” she said.

The recovery of state control over YPF is a popular move as many Argentines blame the company for fuel shortages that have worsened over the past year. Many motorists have had to pay more to fill up on pricier premium gasoline or will what is happening to YPF drive them to reverse direct imports to $9.4 billion in 2011, an amount that could increase further this year as the country ramps up imports of LNG by up to 43% this year.

Fernandez de Kirchner said the worsening energy affairs drove her to make the decision on the expropriation, saying there have been few signs that Repsol wanted to do things better, using graphs and tables to make her point.

“Maybe they were thinking that with another president things would get better,” she said.

While the bill wends through Congress, Fernandez de Kirchner said she has appointed Planning Minister Julio De Vido, her chief energy strategist, to oversee the operations of YPF.

Under state control, YPF will focus on expanding exploration and production, including in the development of resources held in shale formations, Fernandez de Kirchner said.

“We are the third-largest country in the world with shale gas resources,” she said.

The president shot down concerns about reprisals from Spain and the European Commission, both of which sent warnings last week and continued to raise concerns April 16.

Spanish Prime Minister Mariano Rajoy called a meeting with senior officials after the announcement to draft a response, Europa Press newswire reported.

In her speech, Fernandez de Kirchner said she “is not going to answer to any threat” and “is not going to respond to any outburst” or “echo the lack of respect and the insolent phrases that some say, I am a chief of state, not a hooligan.”

There still are concerns.

The government might be able to ramp up oil and gas production in the short term with the takeover, but the treatment of YPF could set a precedent for relations with other private companies.

Argentina has attracted companies like EOG Resources, ExxonMobil and Shell to acquire assets for shale development in the southwest of Argentina, betting on potential that Argentina could replicate the US in becoming a net exporter of shale gas.

Now with what is happening to YPF, “there will be pressure on all the other energy companies to produce at the level the government says they should or they will face intervention or the loss of licenses,” said Mark Jones, an expert on Latin American politics at Rice University in Houston, Texas.

“This could have a chilling effect on investment in the industry,” making it harder for the development of the large shale resources, he said.

“The government is underestimating how technically difficult it is to develop shale resources,” added Jones. “There are a limited number of companies that have the technology, know-how and experience to successfully exploit these shale deposits at a profit. Will these companies be interested, or will what is happening to YPF drive them away?” — Charles Newbery, with Luca Baratti in Madrid

**The Barrel**

Saudi Arabia tries to reverse direct burning of oil

The Saudis in the scorching heat use an increasing amount of crude oil directly in the creation of electricity. Platts' Kate Dourian talks about efforts to reverse that.

Brent/WTI narrows on latest Seaway line reversal news

New York—The front-month Brent/WTI spread narrowed April 16 as momentum gathered around the planned reversal of the Seaway crude pipeline, while Brent futures dipped following Iran talks and eurozone concerns.

The NYMEX May crude futures contract settled up 10 cents at $102.93/b while May crude settled 5 cents higher at $103.37/b.

ICE June Brent fell $2.53 to settle at $118.68/b, bringing the June Brent/WTI settled up 10 cents at $102.93/b while June crude pipeline, while Brent futures dipped following the planned reversal of the Seaway.

NYMEX products followed Brent down, with May RBOB shedding 7.9 cents to settle at $3.2670/gal; May heating oil fell 5.8 cents to settle at $3.1166/gal.

Enbridge and Enterprise Product Partners filed a report April 13 with the Federal Energy Regulatory Commission stating that the reversal of the pipeline—running from Cushing, Oklahoma, the NYMEX crude hub, to Freeport, Texas—will begin on May 17. Actual shipments are not planned until the end of May, a spokesman said April 16.

Previously, Enterprise said it planned to begin pumping crude by June 1 on the reversed line, with initial capacity of 150,000 b/d, but would attempt to start earlier. The full line reversal, with a capacity of 400,000 b/d, is expected to be complete by early 2013.

The FERC tariff filing said that uncommitted rates on the pipeline will be $3.82/b for light crude and $4.32/b for heavy crude. Shippers who committed less than 100,000 b/d during the first open season, from October 3 through November 10, will have rates of $2.75/b for light crude for five years and $2.50/b for light crude for 10 years, said Enterprise spokesman Rick Rainey.

For heavy crude, shippers have a five-year tariff of $3.25/b and a 10-year tariff of $3/b. Shippers who made commitments during the second binding open committed period, from January 4 through February 10, will pay an additional 25 cents/b, he said.

Shippers that committed to 100,000 b/d or more are subject to 10-year terms. Those that participated in the first open season will pay a rate of $2.2/b for light and $2.35/b for heavy.

Participants in the second open season will pay $2.25/b for light and $2.75/b for heavy. According to Carl Larry of Oil Outlooks and Opinions, the Seaway announcement and strong US retail numbers helped boost NYMEX crude prices. US retail sales were stronger than expected, gaining 0.8% in March, boosted by a 0.9% increase in auto sales.

Meanwhile, ICE Brent lost significant ground on both the progress made over the weekend between Iran and the P5+1 group of countries in Istanbul, and eurozone woes as Spanish bond yields rose to a four-month high leading into the April 17 debt auction.

"The Iran nuclear talks were positive only in that they did not completely break down in acrimony," wrote Kilduff Report analysts in a research note, pointing out that the next round of talks is to take place "in Baghdad of all places."

According to Phil Flynn of PFGBest, the Brent/WTI spread was the story to watch.

"The spread should get back to normal over the next few months," with the combination of the Seaway reversal bringing more crude to world markets, putting downward pressure on Brent and upward pressure on WTI, according to Flynn.

Weekly oil data from the US Energy Information Administration and the American Petroleum Institute are expected show a 400,000-barrel build in US crude stocks for the week ended April 13, analysts polled by Platts forecast said April 16.

The five-year average, according to EIA’s data, shows crude rising by just 15,000 barrels. The trend for this time of year is for crude stocks to build. The five-year averages show crude stocks building by roughly 8 million barrels through April into the first week of May.

While the average of analyst estimates came to a 400,000-barrel build, individual estimates were mixed. Larry expects a draw of 1.5 million barrels, citing a decline in imports from Saudi Arabia ahead of the expected influx of crude coming down the Seaway pipeline. According to analysts polled by Platts, gasoline stocks should build by 140,000 barrels, while distillate stocks should be unchanged.

— James Bambino, Alison Ciaccio, with Lucretia Cardenas in Houston
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