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Kashagan: a Caspian dream turned headache for oil majors

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Western majors are battling to protect their patch as increasingly assertive national oil companies gain greater control over world energy supplies.

So it's odd that ExxonMobil would even consider ceding its stake in Kazakhstan's vast Kashagan oil field, let alone to a state-owned group.

ONGC, India's state oil company and GAIL, the Indian gas utility [said this week](#) they were in talks jointly to buy part of ExxonMobil 16.8 per cent interest in Kashagan as part of a drive to win oil reserves in central Asia.

ExxonMobil and its partners, Shell, Total, ConocoPhillips and Japan's Inpex, fought tooth and nail ten year ago to be included in the development at Kashagan, one of the dwindling number of "elephant" oilfields left in the world.

However, the project that allowed the majors to book huge additional oil reserves, has turned out to be [a headache](#) for all concerned.

Kashagan is difficult and dangerous to develop – its oil lies in high pressure reservoirs in shallow waters of the Caspian Sea that are infested with shifting blocks of ice in the winter months . Environmentalists say it would be best to leave the field alone. Bankers have raised questions about the astronomical \$137bn estimated cost of the development – the most expensive industrial projects ever undertaken.

Progress at Kashagan has been disrupted by [repeated disputes with Kazakhstan](#) over inflated costs and delays. In the latest row, the Kazakhs have refused to approve the second phase of the development designed to boost production to 1m b/d, citing problems with the timetable and bill.

After ten years of work and no oil production to show for more than \$20bn of investment it is hardly surprising that the oil majors are growing disheartened at Kashagan.

ConocoPhillips has already signaled willingness to abandon the field as the US major sells international assets to pay off debt.

ExxonMobil has not commented on the talks with the Indians, but the thought that such a powerful player would even consider exit from Kashagan has analysts puzzling.

Some observers believe the talks may be a bluff to bring Kazakhstan to heel in the dispute about phase 2. At the very least, India's approach indicates that "negotiations with the government are not going well at all," says Edward Chow, senior fellow at the Center for Strategic and International Studies.

Chow believes that ExxonMobil is unlikely to bail out of Kashagan until the first phase of the begins producing late next year restoring confidence and adding value to the project.

However, others says ExxonMobil is in talks with KazMunaigas, the Kazakh state oil company, about other Caspian projects that might be less trouble than Kashagan.

The departure of ExxonMobil would be a blow to other members of the consortium because the US major is dealing with tricky drilling operations at the field.

Dominic Lewenz, oil analyst at Visor Capital, the Kazakh investment bank, says oil majors left behind at Kashagan might have difficulties accommodating national oil companies that have different priorities.

"State companies are mandated to find oil for their home countries while majors are primarily interest in making a profit," he says.

However, as national oil companies become more assertive, the partners at Kashagan may be have to accept uncomfortable bedfellows.

Socar, Azerbaijan's state oil company expressed interest in Kashagan this month and may be positioning to demand a stake in exchange for allowing oil from the field to be exported through pipelines crossing its territory.

[China has long sought access to the Kazakhstan's promising offshore acreage](#) and has the financial strength to take on high cost projects like Kashagan.