

Russians come to Denver with new slant on oil deals

By Joe Estrella

Rocky Mountain News Staff Writer

The marriage between the Commonwealth of Independent States' decaying oil and gas industry and Western capitalism has not always been a smooth one.

Faced with a fading energy industry, officials of the Russian government and the republic of Tomsk in Western Siberia were in Denver recently trying to balance their needs against the substantial economic interests of the overseas companies they were seeking to attract.

Their main selling point: recent legislation that requires Russian natural resources only be awarded through competitive bidding, and an exemption for joint ventures formed prior to 1992 from a punitive export tax.

"Our dilemma is that we want to encourage foreign investment, but we also have to balance our budgets," said Victor Orlov, chairman of the Committee on Geology and use of Mineral Resources of the Russian Federation Government.

Outside investment has become essential for the Russian oil patch, where thousands of wells sit idle for lack of equipment and spare parts.

As a result, the country's oil production will slip to 7.8 million barrels a day in 1992, down from 10 million a day in 1990, and leave the world's former leader in oil production trailing Saudi Arabia's output of 8.2 million barrels a day.

In order to lure some of the world's largest western oil companies, Orlov headed a 10-man Russian delegation that came to Denver recently to meet with officials from oil and gas companies from the U.S., Europe and Japan.

Their purpose was to interest the companies in some 75,000 square kilometers in the Tomsk region of western Siberia that will go up for lease next February.

Orlov estimated each block of up to 6,000 square kilometers potentially contains "dozens of millions of tons of reserves," or the equivalent of 7.3 barrels of oil per ton.

The four-day conference was the first such gathering since the Russian government passed legislation that mandates that foreign companies only be awarded concessions through competitive bids.

During the week-long sessions in Denver, oil industry officials were able to purchase specially prepared geological and geophysical data on the Tomsk region compiled by the All Russian Oil & Gas Geological Research Property Institute and

Outside investment has become essential for the Russian oil patch.

Wavetech Geophysical Inc., a Denver-based outfit that has coordinated similar meetings.

The delegation spent its time meeting with officials from "about 20 of the largest oil companies in the world, both majors and independents," said Orlov through an interpreter.

However, the delegation's data was not the only thing being scrutinized.

Each of the oil companies present was required to provide a financial breakdown, which will be studied by a special committee composed of officials for the Russian government and the Tomsk Administration.

"They don't want a company coming in that doesn't have substantial resources," said Wavetech president Edward Gendelman. "They don't want somebody that might win a bid on a certain area, then have to

sit on it."

Companies taking part in the February bidding round will submit sealed bids containing a cash bonus covering a portion of their offer. If their bid is accepted, a model joint venture contract is signed that details tax structures, royalties, contract length, methods of transporting and freedom to export the product outside the country.

The contract is then filed with the Russian Ministry of Finance, bypassing years of paperwork.

The process should prevent the bureaucratic nightmares that have meant years of waiting before foreign oil companies could begin operating in Russia, said Greg McMichael, oil analyst with Hanifen, Imhoff Inc., a Denver securities house.

"In the past, oil companies trying to operate in Russia ran the risk of bureaucrats coming down at the last minute and spoiling the party," McMichael said.

Moreover, the bidding process could generate additional money for Russian government by getting the world's largest oil companies to compete against each other, he said.

Texaco Inc., which is also considering prospects in Siberia, has long-term interests in the Timan Pechora region bordering the Pechora Sea about 1,000 miles north of Moscow.

Its western Siberia prospects involve using western technology to increase production from existing fields, said Sandy Walkington, spokesman for Texaco's international operations.

Meanwhile, the Russian government recently moved to appease companies already operating in Russia.

In early August, it issued Russian Federation Regulation No. 1375, which exempted oil and gas joint ventures with foreign investment of at least 30%, and which were registered before 1992, from paying export duties that amounted to about \$5 a barrel.