

## Kazakhstan halts work at Kashagan field

By Isabel Gorst in Moscow

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Kazakhstan on Monday called a three-month halt to work at the giant Kashagan oilfield, claiming that a consortium led by Italy's Eni had broken environmental rules at the project and evaded customs duties on imported equipment.

The move will intensify pressure on Eni, which opens talks Monday with Kazakhstan about possible changes to the contract terms at Kashagan, where repeated delays and soaring costs have angered authorities.

Nurlan Iskakov, Kazakhstan's minister of ecology, said, "We have stopped work [at Kashagan] for three months... We have taken this unprecedented step because our environmental demands have not yet been fully met".

Separately, Kazakhstan's finance ministry said it would launch a criminal investigation into alleged customs tax evasion by subcontractors working for Eni.

"Preliminary losses to the Kazakh budget resulting from the unlawful actions by affiliates of the consortium amount to over \$2.5m," the ministry said.

Eni spokesperson: "In the past few days we have received a letter asking for a friendly re-discussion of the contract. Today in Astana [the Kazakh capital] representatives of the consortium will meet local authorities to analyse the situation."

Last week, the ecology ministry threatened to revoke the Eni-led group's Kashagan licence, saying that pollution related to the oilfield development, one of the world's biggest and most challenging, may have caused the death of large numbers of rare seals early this year in the north Caspian Sea.

Eni informed the Kazakh government on June 29 that Kashagan would not begin producing oil until late 2010, two years behind schedule. The Italian company also said the cost of the first phase of the project had risen to \$19bn, almost double original estimates.

Kazakhstan interpreted the delay as a change to the Kashagan contract of 1997, entitling it to demand more favourable terms including an increase in its share of oil profit to 40 per cent from an earlier contracted 10 percent.

Paolo Scaroni, Eni chief executive, last week said talks with the Kazakh government on the issue would begin today and last about 60 days.

The escalating Kashagan dispute has been compared with Russia's dispute with Shell, which resulted in the oil group losing control of the huge Sakhalin-2 LNG project to Gazprom last year after Moscow complained about rising costs and environmental problems.

Ivan Mazalov, a portfolio manager at Prosperity Capital Markets, said Eni "had dropped the ball at Kashagan".

Repeated delays and soaring costs at Kashagan would cause Kazakhstan substantial financial losses, he said. The field, estimated to contain 30bn barrels of oil, is critical to Kazakhstan's plan to triple production and become one of the world's top oil exporters in the coming decade.

Eni said safety precautions had necessitated the delay at Kashagan where oil, laden with poisonous sulfurous gas, lies in high-pressure reservoirs.

The Italian group's Kashagan consortium includes Shell, ExxonMobil, Total, ConocoPhillips and Inpex. KazMunaigas, Kazakhstan's state oil company has a minority stake in the project.

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