Oil group warned on Kazakh project delay

By Isabel Gorst in Moscow

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Kazakhstan has warned a foreign consortium led by **Eni**, the Italian oil company, that it will demand better terms at the giant Kashagan oilfield in the Caspian Sea to compensate for soaring costs and the delayed launch of production at one of the world's most challenging oilfield developments.

Baktykozha Izmukhambetov, Kazakhstan's energy minister, told a government meeting on Monday that Eni had lifted its estimate of the full cost of developing Kashagan from $57bn (€41.6bn, £28bn) to $137bn after encountering technical difficulties in the field. Eni had also postponed Kashagan's start-up by two years to 2010, he said.

Eni, which leads the consortium with an 18.52 per cent stake, declined to comment on Monday. Other foreign stakeholders include **Total**, **Shell**, **ExxonMobil**, **ConocoPhillips** and Inpec.

"We plan to begin negotiations with the companies about this project on August 6. The parameters of the project will be clarified once a consensus is found," said Mr Izmukhambetov.

Kazakhstan proposes to raise its own share of the profits from Kashagan oil, which will eventually produce over 1.5m barrels a day, to 40 per cent from 10 per cent. Other unspecified changes to the contract are also being considered.

Foreign oil companies are concerned that Kazakhstan might follow the example set by Russia, which last year forced a Shell-led group to surrender a majority share in the Sakhalin II liquefied natural gas project to **Gazprom** after development costs almost doubled.

KazMunaigas, Kazakhstan's state oil company, bought an 8.33 per cent stake in Kashagan in 2004. Laws passed since then, designed to bolster the state's role in the oil industry, have entitled KMG to a majority interest in all Caspian Sea oil projects.

Chingis Mukhanov, a spokesman for the energy minister, said Kazakhstan was not seeking to punish investors for the postponed development but needed to offset economic losses resulting from the delay, which could derail the republic's plan to triple its total oil production to 3m barrels a day by 2015. Most of Kazakhstan's oil is exported. The government would not ask Eni to surrender the running of Kashagan, he said.

Mr Mukhanov said surging costs at Kashagan reflected the "unbelievable complexity" and environmental risks of tapping Kashagan, where oil, laden with poisonous sulphurous gas, lies under huge pressure.

Analysts said that KazMunaigas, which has hired ABN Amro and Visor Capital, a Kazakh investment bank, as its financial advisers at Kashagan, might now face difficulties meeting cash calls for its share of the development.