

Exxon Faces Russian Clash as Rosneft Files \$1.4 Billion Claim

Exxon Mobil Corp. faces a legal clash with Russian oil giant Rosneft PJSCover its largest energy project in the country, with a potential liability of more than \$400 million.

Russia's state-owned oil behemoth filed an arbitration claim alleging "unjust enrichment" against all the Sakhalin-1 co-owners, including its own units, for a total of 89 billion rubles (\$1.41 billion), according to the country's legal database. The offshore project is Exxon's flagship in the nation after quitting most of its developments earlier this year due to sanctions. The U.S. company operates the venture with a 30 percent stake.

The press office for Exxon's unit in Russia said it's "aware of the court action, rejects the claims and will take action to defend the rights of the Sakhalin-1 consortium," without elaborating.

Rosneft's claim covers a period from 2015 through to May this year, although no further details were published. Rosneft didn't immediately respond to calls and messages seeking comment.

Sakhalin-1, which pumps more than 200,000 barrels of crude per day, is the only major oil project in Russia still operated by an international company. It's an exception in a nation where state-controlled companies have steadily expanded their control of energy resources, including developments around Sakhalin Island off the Pacific coast.

Kremlin Control

In 2007, during President Vladimir Putin's second term, the Kremlin pressured Royal Dutch Shell Plc to sell a controlling stake in the Sakhalin-2 oil and gas project to Gazprom PJSC. In 2015, Russia's audit chamber told the nation's parliament that the government lost out on about \$5 billion of taxes and other payments from the Sakhalin-1 venture because Exxon failed to increase natural gas sales.

Exxon in turn filed a claim over taxation of Sakhalin-1 three years ago, which last year ended up with an out-of-court deal with the Russian government. Despite halting some drilling earlier this year due to international sanctions, Exxon said it could continue operations at Sakhalin-1 because it predates the 2013 deals that were subject to the restrictions.

An arbitration court of Russia's Sakhalin region registered the Rosneft claim on July 20 and set a preliminary hearing for September 10, according to the legal database. The court asked Rosneft to provide details of an agreement for the development of a northern tip of Chayvo field off Sakhalin Island. The Moscow-based producer has said it's developing this area on its own, while it's bordering with Sakhalin-1's Chayvo field.

Rosneft units own 20 percent of the Sakhalin-1 project, as does India's ONGC Videsh Ltd. Japan's Sakhalin Oil & Gas Development Co. holds the remaining 30 percent.