

## \$20bn gas project seized by Russia

Cartoon: Kipper Williams's take Check the latest share price

Terry Macalister, Tom Parfitt in Moscow

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Shell is being forced by the Russian government to hand over its controlling stake in the world's biggest liquefied gas project, provoking fresh fears about the Kremlin's willingness to use the country's growing strength in natural resources as a political weapon.

After months of relentless pressure from Moscow, the Anglo-Dutch company has to cut its stake in the \$20bn Sakhalin-2 scheme in the far east of Russia in favour of the state-owned energy group Gazprom.

The Russian authorities are also threatening BP over alleged environmental violations on a Siberian field in what is seen as a wider attempt to seize back assets handed over to foreign companies when energy prices were low.

The moves will alarm many investors in the City of London as Shell and other share prices are hit, but the news will also increase ministers' concerns about Britain's energy security.

Russia is becoming a key source of natural gas to the UK and Gazprom has already made clear it would like to buy a company such as Centrica, which owns British Gas. One third of western Europe's natural gas is supplied by Russia - a figure expected to rise over the next decade. The security of energy supply is now the main political issue between the EU and the Kremlin. Nervousness about the Russians was heightened last winter when the gas supply to Ukraine was cut off in the middle of a political dispute.

Shell confirmed last night that its chief executive, Jeroen van der Veer, met Gazprom's chairman, Alexei Miller, in Moscow last Friday but would say only that the talks on Sakhalin-2 were "constructive". The Russian company said that "Shell did indeed make several proposals concerning Sakhalin-2" at the meeting which came after Shell was threatened with having its operating licence withdrawn.

The energy minister, Viktor Khristenko, is expected to give details today of a deal under which Shell and its Japanese partners are likely to get a cash payment in return for giving Gazprom a stake in the project.

Dmitry Peskov, the official spokesman of Russia's president, Vladimir Putin, hit out yesterday at critics in the western media who implicated the Russian government in manipulating oil projects and the poisoning of dissidents. He said there was too much "anti-Russian hysteria". With reference to BP's oil spills in Alaska, he added: "If it's an environmental problem in Alaska it's environmental. If it's in Russia you call it politics."

But other senior politicians in Moscow had no doubt Shell was being harassed into reducing its 55% stake in Sakhalin-2 to something close to 25% through relentless pressure from ministries.

"In the current situation Shell will not be able to defend its economic interests in a civilised process with the Russian authorities, so they will be obliged to give up control if they want to save at least some adequate part of the project," said Vladimir Milov, Russia's former deputy energy minister.

Bob Amsterdam, the lawyer of the jailed oil oligarch Mikhail Khodorkovsky, said the Kremlin was "once again" using legal pretexts to cover what was essentially an expropriation of private resources in the energy sector. "The Kremlin ought to cease this behaviour," he said.

The Sakhalin-2 project is scheduled to start operations in 2008 and involves finding and producing oil and gas near Sakhalin island, formerly known only as a penal colony during the tsarist and Soviet eras.

The two fields that make up Sakhalin-2 have an estimated 1.2bn barrels of oil and 500bn cubic metres of natural gas. The gas is to be brought ashore, liquefied and frozen before being shipped to customers in Japan and elsewhere.

The scheme created almost immediate controversy with western conservation groups because it involves putting equipment close to breeding grounds of endangered western grey whales. There has also been criticism that sensitive salmon fishing areas are being hit by dumping of dredging spoil waste amid worries about oil spills from platforms in the Okhotsk and Japanese seas.

But even non-governmental organisations have expressed surprise at the way the Russian authorities have taken up environmental issues since the summer after taking little interest before.

Mr Peskov said it was a coincidence of timing and that it was "a process that is natural for every country" to come to eventually. Mr Putin's spokesman said Russia wanted to encourage western investment and wanted closer links with west European countries to foster mutual "interdependence".

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