

Putin Orders Openness at Transneft

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Prime Minister Vladimir Putin on Saturday ordered state-owned oil pipeline monopoly Transneft to improve transparency and disclose information about pricing policy and investment programs.

The move comes amid mounting frustration of oil companies, who have to deal with the monopoly's habit of increasing tariffs to cover project costs, and coincides with efforts by the Finance Ministry to seek tighter control over state-owned firms' borrowing and investment plans.

"We are monitoring the situation ... but here the issue is the next step ... the possibility of some kind of control, to say, 'look, guys, this is excessive,'" Deputy Finance Minister Dmitry Pankin told reporters on Saturday, on the sidelines of a G20 finance ministers meeting in South Korea, Reuters reported.

The order, which does not mention Transneft by name but refers to "natural monopolies supplying services of transportation of oil and derivative products through pipelines,"

introduces standards of disclosure that will effectively force the firm to publicize information on its shipping tariffs, financial affairs, investment programs, services and spare shipping capacity.

The decree requests the Federal Anti-Monopoly Service and the Federal Tariffs Service to approve “the form, timing and frequency” of disclosures relating to pricing and market access within three months.

The government owns 78 percent of Transneft's equity capital but 100 percent of the voting shares. The company pumps 93 percent of Russia's crude oil and controls 60,000 kilometers of pipeline. Its growing transit tariffs are a cause of complaint by oil companies, who say opaque pricing policies prevent them from reliably forecasting long-term spending — a must for planning investment in new projects.

“That's why the market will see it as positive news. Shareholders want higher dividends and higher transparency from Transneft,” said Valery Nesterov of Troika Dialog.

Repeated calls to Transneft went unanswered Sunday.

Oil companies have complained for many years that ongoing increases of transit tariffs are having a noticeable impact on their balance sheets. Transneft announced last month that it would raise fees by 9.9 percent in December but promised that they would remain at that level next year.

The company has borrowed extensively to fund new projects, including the East Siberian-Pacific Ocean oil pipeline to China, Japan and South Korea, and has raised transport tariffs to cover its costs. Other current projects include the second phase of the Baltic Pipeline System, or BTS-2, and a projected 60 billion ruble (\$2 billion) pipeline in the Arctic that it plans to build with TNK-BP, LUKoil and Gazprom Neft.

In May, minority investor Alexei Navalny won a court order forcing police to investigate the undisclosed beneficiaries of Transneft's charitable donations, which totaled nearly 15 billion rubles (\$494 million) between 2005 and 2008.

Uncertainty about Transneft's investments and how it plans to reduce debt makes its tariff policy “a very big question mark for Russian oil companies' future cash flows and revenues,” Nesterov said.

“The principle of the tariffs is cost-plus, but you need to know what the costs are,” Nesterov said. “You can buy a kilometer of pipeline for \$1 million, or you could spend double or triple that.”

Preferred shares in Transneft plummeted last week after the government made it clear that the company would not be part of the planned \$59 billion dollar privatization program, even though the Finance Ministry included the company on the initial list in July.

The proposal to sell the government's stake was backed by minority shareholders but loudly opposed by the company's management. Transneft president Nikolai Tokarev said in September that privatizing would be the “the worst thing” that could be done to the company.

Prosperity and Eastern Capital, two portfolio fund managers that together with commodity investment manager Vostok Nafta hold 21 percent of the company's preferred shares, wrote to Putin in August urging him to push ahead with a sale of 25 percent of the company.

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