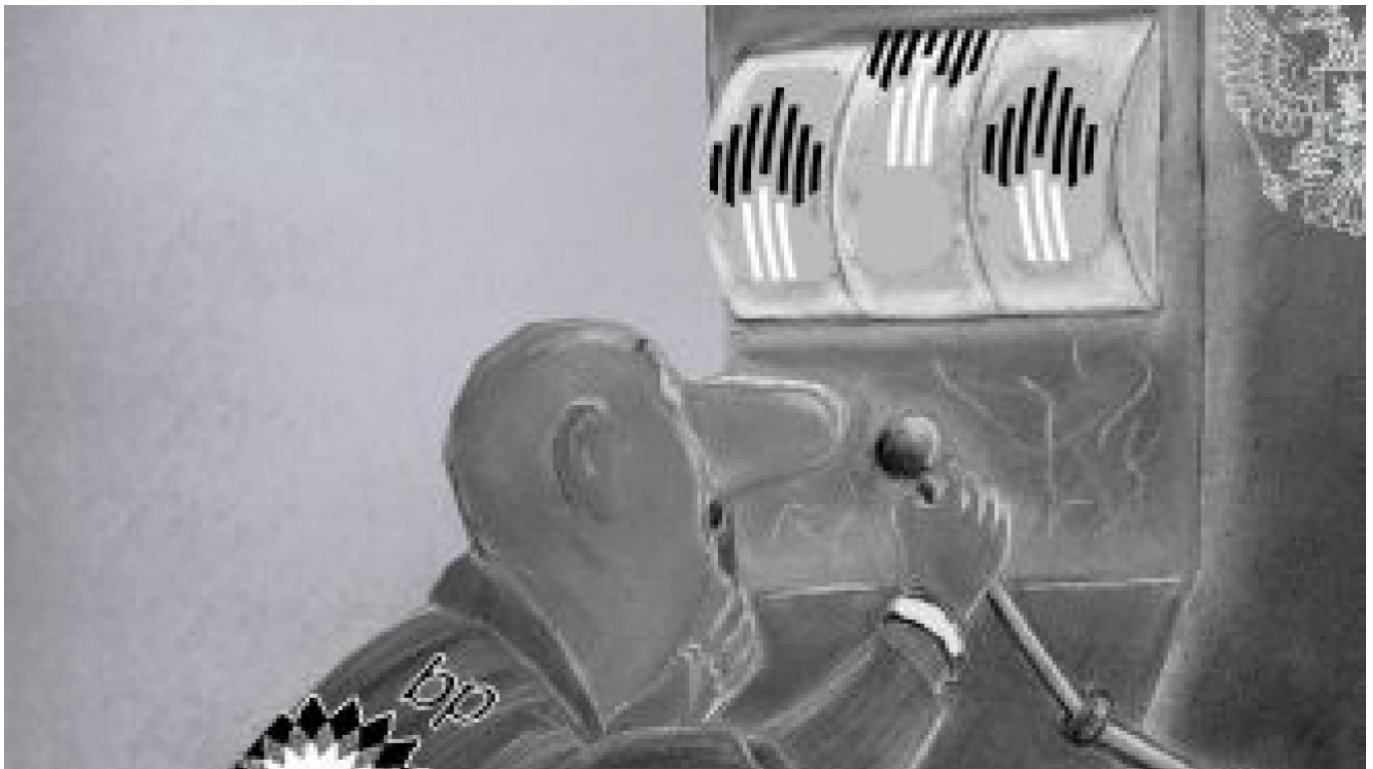


Twice Burned, BP Not Shy

By [The Moscow Times](#)

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First came Sidanco. Then TNK-BP rose its head. Now we have Rosneft.

BP's surprise deal to hand over a 5 percent stake worth \$8 billion to Rosneft in exchange for 9.5 percent of the state-owned oil company and the rights to exploit potentially enormous oil and gas deposits in Russia's Arctic shelf represents a bold move by BP CEO Robert Dudley and the first key endorsement by a foreign investor of the state's forced bankruptcy of Yukos.

If anyone can pull off this arrangement, it is the highly principled and humble Dudley, a savvy veteran of Russia's sometimes bellicose business environment.

Just two years ago, Dudley fled Russia amid accusations that he had broken Russian law. But then Dudley emerged as BP's chief last year after the Gulf of Mexico disaster left the oil company struggling to salvage its reputation and market value.

Friday's deal is win-win for BP and Rosneft. BP wants to tap new frontiers to expand its reserves, a quarter of which are already in Russia. Rosneft, in turn, desperately needs the expertise that BP can provide. Even more important for the government, the deal essentially

means that BP has endorsed the legality of the Yukos bankruptcy and its subsequent takeover of Yukos assets. Questions about the legality of the 2006 bankruptcy, still under challenge in international courts, have spooked other international energy companies from working with Rosneft.

But BP has always been at the forefront of testing the waters for foreign investors in Russia — whether it wanted to or not.

In a major test for foreign investors in post-Soviet Russia, BP in 1998 and 1999 fought bitterly over its first major investment, a 10 percent stake in Vladimir Potanin's Sidanco that it acquired for \$571 million in 1997. A contentious bankruptcy lawsuit saw the entire value of Sidanco — which, curiously, was itself created by the privatization of a Rosneft stake — plunge to about \$1.5 billion. Potanin eventually bowed out, and BP, still clinging to its 10 percent stake, made peace with the new majority owner, TNK.

In 2003, BP pooled its Russian and Ukrainian assets with those of the owners of TNK to create TNK-BP, a trailblazing effort hailed as an illustration of how foreign and Russian partners can work together. Burned once by Russian partners, BP took the extra step of winning the Kremlin's blessing on the merger. Dudley took the helm as CEO.

It was here that Dudley gained crucial experience working with state-run companies, dealing with Gazprom in a headline-grabbing battle for control of TNK-BP's Kovykta gas field.

Meanwhile, a power struggle broke out between BP and the TNK partners that saw staff accused of espionage, BP's foreign employees lose their visas, and Dudley leave the country after the Russian partners claimed that he had broken the law. The warring sides buried the hatchet in late 2008, with BP keeping the 50-50 split but making concessions that allowed the Russians to increase managerial control over the company.

One of the things that TNK's owners wanted — but failed to secure — was a stake in BP. That's exactly what Rosneft got in Friday's agreement. After dealing with oligarchs, with and without the Kremlin's blessing, BP apparently has decided that the safest way to protect its interests in Russia is to work directly with the state. The Rosneft agreement, BP's first major deal since the Gulf of Mexico disaster, will be closely watched by foreign investors as a possible bellwether.

In life, there is no such thing as failure, just the realization of which methods do not work. In this spirit, Dudley clearly hopes that the third time is the charm.

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