

# Deadline for TNK-BP Deal Passes Without Resolution

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The fate of the \$16 billion "deal of the century" between BP and Rosneft hung in the balance late Monday night as four-way talks between the two companies, BP's oligarch partners and the Russian government ended in a game of brinkmanship.

The oligarchs, widely considered to be purely financial investors in TNK-BP, have pitted their maneuvering for the highest price tag possible in any buyout against Rosneft and BP's scruples over how much they are prepared to pay.

TNK-BP is a highly profitable enterprise, said a banking source in Moscow, but its assets will mature. "What a better point than today [for AAR] to find an exit?"

AAR — Alfa, Access and Renova Group — represents billionaires Viktor Vekselberg, German Khan, Len Blavatnik and Mikhail Fridman.

A May 16 deadline — already extended by a month at BP's request — expired at midnight London time, or 3 a.m. in Moscow, with apparently no agreement reached between the parties. Talks may continue between BP, Rosneft and AAR, even after the deadline, two sources close to the deal said, Bloomberg reported.

TNK-BP's share price jumped 3.4 percent Monday — the most in a month — on rumors that AAR might accept an offer by BP and Rosneft for its 50 percent stake.

Reuters reported late Monday that AAR had agreed on a \$30 billion price tag, but a consensus over the equity stakes that BP and Rosneft were willing to cede to AAR had become the sticking point between the parties.

BP shares fell to 438.45 pence in London, while Rosneft closed up for the first time in four days.

AAR rejected a \$27 billion offer from BP in April, the Financial Times reported, insisting that its stake in TNK-BP was worth \$35 billion to \$40 billion.

A source close to the negotiations told Interfax on Monday that AAR had rejected offers from BP and Rosneft that "ought to have met AAR's aspirations." AAR had instead proposed "enslaving conditions that are impossible for either company," the source said.

However, Prime Minister Vladimir Putin distanced himself from the wrangling Monday. "Putin did not take part in the BP-Rosneft deal and is not going to take part in it," Putin's spokesman Dmitry Peskov told Reuters. "It is a deal between the two companies."

Analysts said Putin's involvement in the deal was limited, even though he gave his public blessing when it was announced in January and was photographed with BP chief executive Robert Dudley and then-Rosneft chairman Igor Sechin

"So far the state has played a small role," said Valery Nesterov, an analyst at Troika Dialog. "And in certain respects this had been disappointing because it makes the rules of the game opaque."

The deal between state-owned Rosneft and BP, struck on Jan. 14, gave BP unprecedented access to explore Russia's Arctic shelf and stipulated that Rosneft receive a 5 percent stake worth \$7.8 billion in BP in return for about 9.5 percent in Rosneft.

BP hoped to find a recovery strategy following the disastrous Gulf of Mexico oil spill last year in the landmark agreement, while for Rosneft it represented an important step in its aspiration to become a global oil player.

However, the tie-up — dubbed a "strategic partnership" at its unveiling — was quickly challenged by AAR, which argued that it violated a TNK-BP shareholder agreement because BP's cooperation with Rosneft would damage the company's long-term growth potential.

AAR's arguments were upheld by a London-based arbitration tribunal ruling on May 6 that said Rosneft must partner with TNK-BP instead of BP and that the share swap could only go ahead if the holdings were managed by trustees.

Rosneft, however, has said repeatedly that it does not want to work with TNK-BP, and many experts saw an acceptance of the tribunal's ruling by Rosneft as unlikely.

"BP and Rosneft will cooperate in any case," Nesterov said. "I doubt that TNK-BP is a durable construction that will last many years."

Rosneft will dedicate 84.8 percent of its net profit from 2010 for investment, Interfax reported, citing materials prepared for the company's annual general meeting.

About 166.7 billion rubles (\$5.79 billion) will be plowed into production and social development. The remaining 15.2 percent will be earmarked for dividends to be paid at a rate 20 percent above that of 2009, the board of directors recommended.

Sergei Bogdanchikov, who was replaced by Eduard Khuidainatov as president of Rosneft in 2010 but remains on the board of directors, will receive 14,021 shares in the company worth 3.2 million rubles in recognition of his work. Bogdanchikov sold all the shares he held in the company in September after he stepped down.

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