

Farmers Get \$645M Fuel Discount

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Farmers should see improved bottom lines during sowing season thanks to the state-mandated fuel discounts. **Maxim Stulov**

A company half-owned by BP and several other major oil companies will sacrifice more profits to support farmers this year thanks to a Cabinet decree published Friday.

The decree brings discounts to 30 percent on some fuels used for spring sowing. Signed by Prime Minister Vladimir Putin, the regulation is likely to increase the number of voters thankful to him in rural areas.

The discount that companies like Rosneft, LUKoil and TNK-BP have committed to in past years was 10 percent of the retail price. It cost them 17 billion rubles (\$548 million) last year, according to Interfax.

The tripling of the discount takes place on the background of recent public protests that are making it more of a challenge for Putin to win the presidential election next month. In addition, the discount will apply to wholesale rather than retail prices, thus deepening the

losses of the oil companies.

On top of that, the volume of discounted sales will grow 10 percent, Putin said when he first mentioned the measure earlier last week.

“We treat this news as negative for the oil sector as we see the government continuing to increase pressure on oil producers,” Alfa Bank said in a note to investors last week. “However, we expect this trend to reverse in the post-election period.”

While Rosneft is state-controlled, about 15 percent of it is privately held. The government does not own any part of LUKoil or TNK-BP, which are the No. 2 and No. 3 oil companies in Russia, respectively.

Some other companies that refine oil to produce fuel suitable for farming equipment will also wind up subsidizing agriculture as a result of Friday’s decree.

Putin said last week that farmers would save 12.2 billion rubles due to the lower prices, which the decree will put in place for the first half of this year. Alfa Bank estimated that the subsidies could come to 20 billion rubles.

Putin said the Cabinet would consider discounts for the rest of the year at a later time. A LUKoil spokesman reserved judgment on the measure, saying, “That’s how we help our agriculture.” He added that LUKoil lost 2 billion rubles on such supplies last year.

A Rosneft spokesman declined to comment Friday. A spokeswoman for TNK-BP requested questions in writing, but didn’t respond Friday.

Putin last week thanked the oil companies for agreeing to the discounts despite their hefty tax burden that wipes away about 80 percent of the revenues.

“Nevertheless, they show a sense of responsibility,” he said at a farming meeting.

TNK-BP plans to boost capital expenditures to \$5 billion this year, chief financial officer Jonathan Muir said Friday, Bloomberg reported. The producer will invest about 80 percent of the amount in exploration and production, he said.

Last year, TNK-BP spent about \$4.3 billion, not including acquisitions, he said.

He also said the company may borrow as much as \$2 billion this year. About \$1 billion will be used to refinance existing debt, which the company usually does each year, Muir said.

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