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SPIEF 2012: Looking for Oil? Expect to Find Igor Sechin

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Sechin provides a glimpse of the direction of Russian energy under Putin. **Igor Tabakov**

During their final days in office, ministers, kings and presidents traditionally wield their executive power for policies or people particularly close to their heart, which may not have been politically expedient before.

In his last decree as prime minister, made public on May 10, Vladimir Putin included his old ally Igor Sechin in the list of candidates for the chairmanship of Rosneftegaz.

At first glance a bureaucratic afterthought, the move was actually the first glimpse of the direction the Russian energy industry is headed under a third Putin presidency.

Rosneftegaz is a holding vehicle through which the state controls 75.16 percent of the country's biggest oil company, Rosneft, and 10.74 percent of gas monopoly Gazprom.

Sechin exited the boards of Rosneftegaz and Rosneft last year in accordance with a directive

from then-President Dmitry Medvedev ordering government ministers to quit state-owned companies. But with one stroke of his pen, Putin reversed a rare victory for the liberals in the Kremlin.

Sechin's return to Rosneftegaz was just the first tremor in a subsequent series of tectonic changes that have shaken the oil industry. Twelve days later, on May 22, he was appointed chief executive of Rosneft. He may also return to the board of Rosneft.

And while he appeared to have left government, on June 15, Putin officially made Sechin the secretary of a Kremlin commission filled with businessmen and government ministers that will determine strategy in the sector.

A former deputy prime minister in charge of the energy sector and a confidant of Putin for two decades, Sechin has impeccable credentials.

Some even say he is suspiciously overqualified for the management post at Rosneft. In industry circles, there is a belief that there must be a much bigger mission ahead for Sechin, not simply running a company, even one as large as Rosneft.

"Sechin wants to nationalize the sector back to where it was 20 years ago," said one industry insider, who requested anonymity to speak freely. "Being on the ground, it is much easier for him to push his agenda."

And Putin may have also given him the tools to do it. The same day that Medvedev announced that Sechin was being put at the helm of Rosneft, Putin signed a decree that allows Rosneftegaz to become a temporary buyer of stakes in major energy companies slated to be privatized over the coming years.

Given the doubts about how temporary these purchases could be, Sechin might be given a platform to pursue consolidation in the sector and create his own "national champion."

Rosneftegaz's financial clout was increased earlier this month when Putin suggested that Rosneft increase the level of the dividends it pays, 75.16 percent of which go to Rosneftegaz, from 11.5 percent of profits to 25 percent.

"We could see a global national oil conglomerate," said Shamil Yenikeyeff, a research fellow at the Oxford Institute for Energy Studies. "The whole of the Russian oil and gas industry could change completely in five years."

Sechin himself said that Rosneftegaz's remit to participate in privatization could extend to "five to seven companies." He gave the example of hydroelectric giant RusHydro.

The additional powers bestowed on Rosneftegaz are a way of broadening Sechin's influence, said the industry insider. "If you want to control the sector, you can't only use Rosneft," he said.

But Rosneft could also be the vehicle to further Sechin's vision of a greater role for the state in Russia's energy industry.

Deputy Prime Minister Arkady Dvorkovich said earlier this month that Rosneft was

"interested" in buying Zarubezhneft, which runs projects outside Russia. Oil pipeline monopoly Transneft is another possible target.

And market rumors have swirled that Rosneft may even be looking at Surgutneftegaz. The secretive oil company, Russia's fourth-largest producer, has a cash pile that experts estimate to be as much as $30 billion, a resource that could help Rosneft finance more takeovers.

Also paving the way forward are Rosneft's multibillion-dollar Arctic exploration deals with international majors including ExxonMobil, Statoil and Eni, which will give the company access to sophisticated technology and ventures beyond Russia's borders.

The international expansion of Rosneft is particularly close to Sechin's heart. Earlier this year he made his first-ever official trip to the United States to talk to investors about the deal between Rosneft and Exxon.

The emergence of a giant hydrocarbon company under Sechin's stewardship has been likened to an "oil Gazprom."

There is also a question mark over much-discussed privatization. Medvedev said on June 7 that Rosneft should no longer be under state control by 2016. But given the long time frame, the unpredictable market conditions and probable opposition from powerful figures like Sechin, experts doubt whether there is sufficient political momentum.

Instead, Sechin is likely to seek the emergence of a national energy company with an international footprint, along the lines of Norway's Statoil, said Yenikeyeff. The Norwegian state holds 67 percent of Statoil.

The level of political and administrative power wielded by Sechin and his allies, through which they can promote an ideology of state capitalism, has also been rising.

Putin himself will chair the new Kremlin commission that Sechin was made secretary of earlier this month. Anton Ustinov, a former Sechin aide and architect of the breakup of Yukos, will take a key role in its organization. Putin made Ustinov his adviser on the same day the commission was announced.

In early May, another former Sechin aide, Alexander Popov, was named head of the Federal Subsoil Resource Use Agency, a key regulatory body that distributes licenses for mineral resources.

The political shifts at the top of Russian government have not just affected the state-controlled part of the energy sector, however, but have also bled into private oil companies.

The most dramatic contagion has been a reignition of the smoldering conflict at the country's third-largest oil company, TNK-BP.

International oil major BP appeared to give up on its fractious oligarch partners in the joint venture, Alfa Access and Renova Group, or AAR, when it announced on June 1 that it had received an offer for their half, with a market value of about $30 billion.

AAR used legal challenges to torpedo a $16 billion share swap and Arctic exploration deal that Rosneft struck with BP last year. The head of Alfa Group, Mikhail Fridman, said in an interview with Dozhd TV in April that Sechin, who had played a key role in brokering the failed deal, was "not offended" by AAR's actions.

But Fridman appeared to distance himself from TNK-BP in late May when he unexpectedly stepped down from his position as chief executive.

Some industry insiders suggest that there is an ongoing battle between Sechin and Fridman and that Rosneft would be interested in acquiring a stake in TNK-BP.

Despite the enormous profits it reaps, the new political configuration of the Russian government has also pushed BP away from TNK-BP, Yenikeyeff said.

"The return of Sechin to Rosneft is an opportunity [for BP]," he said. "If you're still stuck in a relationship with AAR, you are missing the opportunity."

Many predicted that Sechin might not get everything to go his way when Medvedev appointed Dvorkovich, a renowned liberal figure, as deputy prime minister in his new cabinet. Dvorkovich now oversees the energy sector, though he has no direct control over any ministry.

While there is little overt sign of any clashes between the liberal and more hard-line clans represented by Sechin and Dvorkovich so far, experts have warned that the possibility of a power struggle is damaging.

"It's hard to build expectations going forward because we don't know who will be the key decision maker," said Ildar Davletshin, an analyst at Renaissance Capital.

Backroom intrigue is creating uncertainty for investors, Davletshin added, stressing that the seismic changes are unlikely to end soon.

"It's too early to have a final view," he said.

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