The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Rosneft Deal Yields Individual Riches and Fearsome Bears

By Roland Oliphant

October 22, 2012



Government officials indicated that Rosneft's acquisition of TNK-BP does not violate antitrust laws.

Rosneft's acquisition of TNK-BP has reportedly made Viktor Vekselberg Russia's wealthiest man and gives the state back control of the oil industry that has been largely in private hands since the privatizations of the 1990s.

As the dust settled from the news of the largest oil deal in the country's history, the biggest individual winners appeared to be the tycoons behind the AAR consortium, who sold their half of TNK-BP for $28 billion.

Vekselberg moved to 40th place worldwide in Bloomberg's Billionaire Index with an estimated wealth of $18 billion — $700 million ahead of former leader Alisher Usmanov.

Alfa Group founder Mikhail Fridman gained $1.2 billion, while Leonard Blavatnik of Access Industries earned $1.5 billion, according to the index.

BP's history in Russia

1997 — BP paid $571 million to buy a 10 percent stake in Sidanko, then Russia's fifth-largest oil company and part of the Unexim-MFK banking group, controlled by Vladimir Potanin.

2003 — BP established Russian joint venture TNK-BP as a result of the merger of Russian companies TNK, Sidanko and Onako with the majority of BP's Russian oil assets. The company was 50 percent owned by BP and 50 percent owned by a group of Russia-connected investors: Alfa Group, Access Industries and Renova, or AAR.

August 2008 — TNK-BP chief executive Robert Dudley left Russia, blaming a campaign of harassment in a fight for control between BP and its partners. He resigned in December.

January 2009 — Shareholders finalized a deal under which BP ceded influence to AAR. Previously, half the board was appointed by BP and half by AAR.

January 2011 — BP and Rosneft agreed to a $16 billion share swap under which they planned to jointly explore for offshore oil and gas in the Russian Arctic.

May 2011 — The deal with Rosneft collapsed after BP's Russian partners won an injunction. A subsequent attempt by Rosneft and BP to buy out AAR's stake also failed.

October 2012 — AAR agreed to sell its stake to Rosneft for $28 billion, according to a source.

- Rosneft sealed a $55 billion deal on Oct. 22 to buy TNK-BP. BP will hold a fifth of state-controlled Rosneft. The acquisition, subject to government approval, will give Rosneft extra output and cash flow to finance exploration of Russia's vast reserves to replace aging fields and ones that are being depleted.

- Rosneft chief expects $3 billion to $5 billion worth of synergies.

— Reuters

Meanwhile, Rosneft chief executive Igor Sechin said Tuesday that the takeover of TNK-BP could generate synergy savings of up to $5 billion for the newly expanded company.

Sechin said in a conference call with investors that the company could gain between $3 billion and $5 billion from the acquisition, for which Rosneft is shelling out something to the order of $56 billion.

Savings would come from efficiencies produced by gaining access to oil fields closer to a new pipeline to China and pooling the companies resources in developing fields in the Arctic, Sechin said. Using Rosneft assets to transport oil from TNK-BP fields in Suzun and Tagul could bring an additional 6 million metric tons of oil to market per year without additional transport costs, he said, Reuters reported.

Rosneft unveiled a deal to buy both halves of TNK-BP from AAR and BP on Monday. The agreement will see the British oil company pocket $12.3 billion in cash and wind up with a 19.75 percent stake in Rosneft when the transaction is complete.

The deal has turned Rosneft into a state-owned super champion that will control 39 percent of oil production in Russia and turn out a projected 4.6 million barrels of oil equivalent per day — roughly 5 percent of global production.

It is the company's biggest expansion since Rosneft emerged from obscurity to snap up the assets of Yukos following a controversial bankruptcy in the aftermath of the Kremlin's high-profile case against Yukos owner Mikhail Khodorkovsky.

Despite the massive outlay, which will largely be financed through borrowing from Western banks, Sechin said that Rosneft would continue to pay out dividends.

"Dividends will remain [at 25 percent of net profit under International Accounting Standards]," Sechin said during the conference call.

But shares in TNK-BP Holding went into free fall Tuesday afternoon, sliding 17.6 percent to $64.79 in Moscow after Sechin said Rosneft would not continue the TNK-BP's dividend policy after completing the acquisition.

"Our top priority is to consolidate this asset. As soon as this happens, this will not be TNK-BP and therefore it is incorrect to ask whether Rosneft will continue the TNK-BP shareholders' dividend policy. Rosneft has its own shareholders,[and] its [own] management, which will decide on these issues in accordance with its powers in a way beneficial for our shareholders," Sechin said in comments carried by RIA-Novosti.

TNK-BP's dividend policy envisaged payouts of at least 40 percent of the company's net profits, according to International Accounting Standards.

Sechin added that there had been "no discussion" of a buyout of TNK-BP Holding's minority shareholders, who collectively account for about 3.5 percent of the company. TNK-BP Holding is the TNK-BP subsidiary that runs most of its assets.

But he went on to urge minority shareholders to buy Rosneft shares instead, saying the company would "bend over backwards" to make them welcome.

The deal brokered by the former deputy prime minister looked set to ride smoothly through the gauntlet of checks and approvals necessary for it to go ahead, with Economic Development Minister Andrei Belousov dismissing concerns about a monopoly.

"We think there will be no monopoly because this company is a global economic entity, it competes with other companies in the world markets," he said, Interfax reported.

But Federal Anti-Monopoly Service chief Igor Artemyev warned Tuesday that Rosneft had reached the limit of reasonable expansion and would unlikely be allowed to make any more acquisitions after swallowing TNK-BP.

"If they want to add two toilets and a petrol station, that's one question, if we're talking about something big, I think not," he told reporters Tuesday when asked about future Rosneft expansion.

The current deal does not violate antitrust law, which forbids control of more than 50 percent of the market, Artemyev added.

"The deal is within the range of a 35 percent to 50 percent market share. In this case we usually permit such deals, but we issue written instructions," he said.

But competitors have expressed concern at the way the deal has handed the state back control of the oil industry after almost two decades of domination by the private sector.

"The situation is back like it was in 1993, when there were only [private] LUKoil and Surgut and [state-owned] Rosneft. What does this mean? It means that, as always, the stronger will finish off the weaker," Leonid Fedun, vice president and the second largest shareholder in Russia's No. 2 producer LUKoil, told Reuters in an interview before the long expected deal.

"Of course, when you have a lot of players, you get efficiency. Just look at how Norway is developing its offshore and how we are developing our northern seas. In Norway, they have practically all their offshore zone developed," he said.

"We, by contrast, have created a club for two companies. Maybe this is good for the companies but not necessarily good for Russia," he said, referring to the government's decision to allow only Rosneft and state-controlled gas company Gazprom to lead development of Arctic resources.

Competitors were not the only ones bringing gloom to the party. Environmentalists, who have long criticized Rosneft's environmental impact, raised concerns about the new super-major's plans for offshore Arctic developments.

"We would mostly be worried about the Arctic. Neither Rosneft nor BP is properly ready to

develop fields on the Arctic shelf. But this extra capitalization may make it easy to begin, and that is what we will be fighting," said World Wildlife Fund Russia head Igor Chestin.

Rosneft has a poor environmental record compared to most of the private sector companies, including LUKoil and Surgutneftegaz.

Earlier this summer the government's environmental watchdog blamed Rosneft for three quarters of the 2011 oil spills in Khanty-Mansiisk, one of the country's top oil producing regions.

Rosneft and Gazprom are also by far the worst offenders in associated gas, burning more than 40 percent of the gas produced as a byproduct of oil production, in defiance of government rules that limit flaring to 5 percent.

Chestin said that he did not expect relatively more responsible practices at TNK-BP's fields to deteriorate as a result of the merger, though he added that "they don't have a great record either."

"All the oil fields [in the country] have pretty outdated equipment," he said.

Meanwhile, representatives of Khodorkovsky accused Sechin of seeking to further launder what they believe to be the ill-gotten gains of the Yukos bankruptcy.

Handing BP almost 20 percent of Rosneft's equity was aimed at "legitimizing" the assets Rosneft took from Yukos "to protect Rosneft from potential claims by diluting the Yukos assets within it," Khodorkovsky's lawyer Yury Schmidt said in comments Tuesday released by the Khodorkovsky press center.

The deal also has geopolitical implications. The London Times said in an editorial Tuesday that BP's acquisition of nearly 20 percent of BP could herald a long-awaited thaw in relations between Russia and Britain.

"For Britain, the challenge will be to make the most of the new relationship with Putin while staying mindful of the dangers of dancing with the Russian bear," the paper said.

Related articles:

- $61 Billion Deal Makes Rosneft the Largest Publicly Traded Oil Firm
- Why the Kremlin Needs BP
- How the Rosneft Deal Went Down

Original url:
https://www.themoscowtimes.com/2012/10/22/rosneft-deal-yields-individual-riches-and-fearsome-bears-a18798