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TNK-BP Deal a Boon for State, Welcome Sign for Foreigners

By Anatoly Medetsky

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Rosneft president Igor Sechin is said to have engineered the Rosneft-BP agreement. The deal would put the British oil major ahead of other energy firms on the Russian market.

Rosneft's deal to take over TNK-BP masterfully achieves the dual purpose of strengthening the state's hand in the oil industry to spectacular proportions and showcasing its benevolence to foreign capital at the same time.

Officially confirmed Monday, the gradual $56 billion purchase of the country's third-largest crude producer will provide a shortcut for state-controlled Rosneft to surpass global publicly traded oil corporations in terms of output.

By ceding almost 20 percent of the immensely expanded company to BP, the state also shows it is willing to embrace foreign interest in the highly sensitive sector.

"To me it says, 'We can do business in Russia,'" said Andrew Neff, an energy analyst for

London-based consultancy IHS Energy.

Russia does better than some governments that nationalize foreign assets, like Argentina, which seized the property of Spanish crude producer Repsol earlier this year, said Ildar Davletshin, energy analyst at investment Bank Renaissance Capital.

"The Russian authorities give a chance to make money," he said.

The takeover of TNK-BP represents the state's latest move to regain the ground it lost with the Soviet collapse and the emergence of private oil producers. When complete, the deal will hand Rosneft control over 39 percent of Russia's crude production and allow it to overtake PetroChina and ExxonMobil as the world's biggest crude producer.

It previously expanded rapidly from 2004 to 2007, emerging from relative obscurity to win the industry champion's title, by snapping up Yukos' assets in a politically tinged bankruptcy.

It was in the same time frame when state-controlled Gazprom acquired major crude producer Sibneft in 2005, later renaming it Gazprom Neft.

After the TNK-BP deal is completed, Rosneft together with Gazprom Neft and Tatneft, which is controlled by Tatarstan's government, will account for a total of 53 percent of the country's oil output, according to numbers provided by investment bank Renaissance Capital.

A greater role that the government is capturing for itself in the industry comes at a time when officials expect that the tax take from the industry could come down. One of the reasons for a dip in the federal revenues is the existing and planned measures to curtail the taxes in the industry to encourage its move to new frontiers in pursuit of more oil. Another reason could be a potential drop in prices for the commodity — a likely threat amid the sluggish global economy.

"In a situation where the fiscal take is actually running the risk of going down in the future ... we see clear arguments for the state to increase its presence in the largest sector in the country through direct equity participation," said a Monday report by Renaissance Capital energy analysts led by Ildar Davletshin.

It was also impossible for Rosneft, headed by powerful Kremlin insider Igor Sechin, to resist the opportunity to grow dramatically and enlist a heavyweight multinational corporation as a partner, all done with one stroke, Neff said.

"When such an obvious, clear and close possibility emerges and sort of lands on your doorstep, it's hard not to take advantage of that," he said.

Having BP as a partner, Rosneft could receive offshore drilling expertise and take stakes in various projects that the British company operates elsewhere around the world, or form joint ventures to bid for more exploration and production rights, Neff said.

For BP, the deal allowed to break free from its troubled partnership with four billionaire co-owners of TNK-BP, but not abandon Russia altogether, he said. In addition, BP hopes to book an amount of oil production proportionate to its Rosneft shareholding — which, Neff said, would equal what it currently has at TNK-BP. The British company would also regain access to

its projects that it earlier sold to TNK-BP to raise money to deal with the Mexican Gulf spill.

BP's equity investment in Rosneft could raise some eyebrows at the Russian company's foreign partners — ExxonMobil, Eni and Statoil — which joined forces with the Russian company to explore offshore fields in the country's Arctic, Pacific and Black Sea waters, Neff said.

"It puts the international oil companies in an awkward situation knowing that BP has a bit of a competitive advantage in Russia as an equity stakeholder in Rosneft, whereas everyone else is a project stakeholder and obviously playing second fiddle to Rosneft," he said.

Even if encumbered with the hefty debt raised for the TNK-BP deal, Rosneft won't have to suspend its offshore plans because its foreign partners agreed to carry the brunt of the multibillion dollar exploration expenses, Davletshin said.

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