

U.S. Sanctions Hit Rosneft's Dollar Financing, but Spare Partners BP and Exxon

By [The Moscow Times](#)

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An attendant holds a gas pump at a Rosneft petrol station in St.Petersburg, Russia.

NEW YORK — President Barack Obama has aimed a direct blow at Russia's economic heart with sanctions on Rosneft, the flagship oil giant that generates more than 4 percent of the world's crude and over 8 percent of the country's GDP.

But in a change of tack from previous similar efforts, the measures were narrowly tailored to slowly starve the state-run energy firm of U.S. dollar funding, not bar it from doing business with oil buyers such as BP or stymie multibillion-dollar ventures with firms like ExxonMobil, experts say.

Wednesday's sanctions against key parts of the Russian energy and financial industry were intended to serve notice to Moscow that its refusal to curb violence in eastern Ukraine has

consequences.

In announcing the sanctions, which also hit No. 2 natural gas producer Novatek as well as two banks and eight defense firms, the Treasury Department said U.S. companies were only prohibited from engaging in any "new debt of longer than 90 days maturity or new equity" with the energy firms and banks.

The measures would not freeze the Russian firms' assets "nor prohibit transactions with them beyond these specific restrictions," the Treasury Department said. That marked a change from many earlier measures that effectively shut down a sanctioned firm's ability to do any business with U.S. entities.

The result is likely to be an increase in the cost of financing for Rosneft, which has grown increasingly reliant on pre-financing oil supply deals with firms including Glencore and BP. It may need to seek out new banks for loans, and could eventually slow investment in new projects.

But it will not "directly affect or limit Russia's oil exports the way that sanctions on Iran were designed to do," said Gary Hufbauer, expert on economic sanctions at the Peterson Institute for International Economics in Washington, DC.

Washington has long barred U.S. companies from investing in Iran, and more recently has imposed sanctions that have halved its oil exports over Tehran's nuclear program.

"The U.S. is scaling its sanctions to have a slow increase in pressure on Russia," Hufbauer said.

To be sure, the new sanctions will intensify the tension between the West and Moscow over Russia's role in Ukraine, and therefore add to broad geopolitical unease across the oil sector. The impact on a deal to buy Morgan Stanley's physical oil trading business, which is now pending before the U.S. foreign investment approval committee, is not clear.

Yet the immediate effect may be less dramatic than in March, when Obama's first major sanctions sparked a brief wave of panic among energy traders who feared they may be cut off from key counterparties such as global commodity merchant Gunvor, whose founder and then co-owner Gennady Timchenko was targeted.

Washington added Rosneft's chief executive Igor Sechin to the sanctions list a month later.

The latest sanctions "could have been a lot worse," Douglas Jacobson, an attorney at Jacobson Burton in Washington and sanctions expert. "The sectoral sanctions list is extremely narrow in terms of parties and what it prohibits."

Obama told reporters the measures were "significant" but also "designed to have the maximum impact on Russia while limiting any spillover effects on American companies or those of our allies."

Funding Squeeze

Thus far, Washington's sanctions have had only a limited impact on the Russian energy

industry, a cornerstone of the country's \$2-trillion economy, resulting mostly in higher borrowing costs for domestic companies.

Even as the pressure has mounted over recent months, executives from Total, BP, Statoil and ExxonMobil have all visited Russia, underlining the importance they attach to business with the world's leading oil producer with current output of around 10.5 million barrels per day. Rosneft alone pumps about 40 percent of that.

Experts said that Rosneft's business partners would not likely be in danger of falling foul of the sanctions.

The latest effort "will limit the sources from which Rosneft can get financing and thus raise the cost of capital for the firm," according to Jason Bordoff, director of the Center on Global Energy Policy at Columbia University and a senior White House energy adviser until late 2012.

"It does not prohibit U.S. firms from doing business with Rosneft or bar Russian energy supplies from flowing into the global market."

Sechin, speaking at a BRICs meeting in Brasilia, said the sanctions would not affect Rosneft's current project with ExxonMobil, but would damage the shareholders of U.S. companies cooperating with Rosneft.

Exxon has a \$10 billion joint venture with Rosneft off the Pacific island of Sakhalin producing over 100,000 bpd. A spokesman for the company declined to comment.

A spokesman for BP, which has a 20 percent stake in Rosneft and a number of large joint exploration projects, said the company was considering implications of the new sanctions, but had no additional comment at this point.

A spokesperson for Schlumberger NV, which drills with Rosneft on the Russian island of Sakhalin, was not immediately available to comment.

Chevron has a stake in a Russian pipeline and last fall inked a \$10 billion deal to develop Ukrainian shale.

"We are reviewing the sanctions to ensure strict compliance with the law and we continue to monitor events," Chevron spokesman Kent Robertson said.

Pre-Paid Oil Deals?

A larger question may be Rosneft's more than \$15 billion worth of oil-related finance arrangements known as pre-payment deals, in which loans are repaid through future oil supplies.

Such deals have raised billions of dollars for Rosneft, which borrowed \$30 billion in two separate loans in 2012 and 2013 to help finance last year's \$55 billion acquisition of TNK-BP. In addition to BP and Glencore, Rosneft has done deals with big global traders Vitol and Trafigura as well.

With pressure over Ukraine mounting, however, some energy companies had already begun

discussing a possible switch to using other currencies to settle the transactions. While oil is typically priced in U.S. dollars, in theory deals can be settled in any currency the counterparties agree on.

Some firms had also begun to back away from dealing with Rosneft. Part state-owned lender Lloyds Bank pulled out of a \$2-billion prepayment facility with Rosneft announced last month to avoid embarrassing the UK government, bankers had said.

"I think the Obama Administration is trying to squeeze Rosneft against continuing to go to the Exxons and BPs and asking for loans," said Amy Jaffe, international energy policy expert at University of California, Davis. "Eventually, everything that limits a big state oil company's access to financing would have an effect on production, just not right away."

See also:

[Sechin Brands U.S. Sanctions on Rosneft 'Illegal'](https://www.themoscowtimes.com/2014/07/17/us-sanctions-hit-rosnefts-dollar-financing-but-spare-partners-bp-and-exxon-a37410)

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