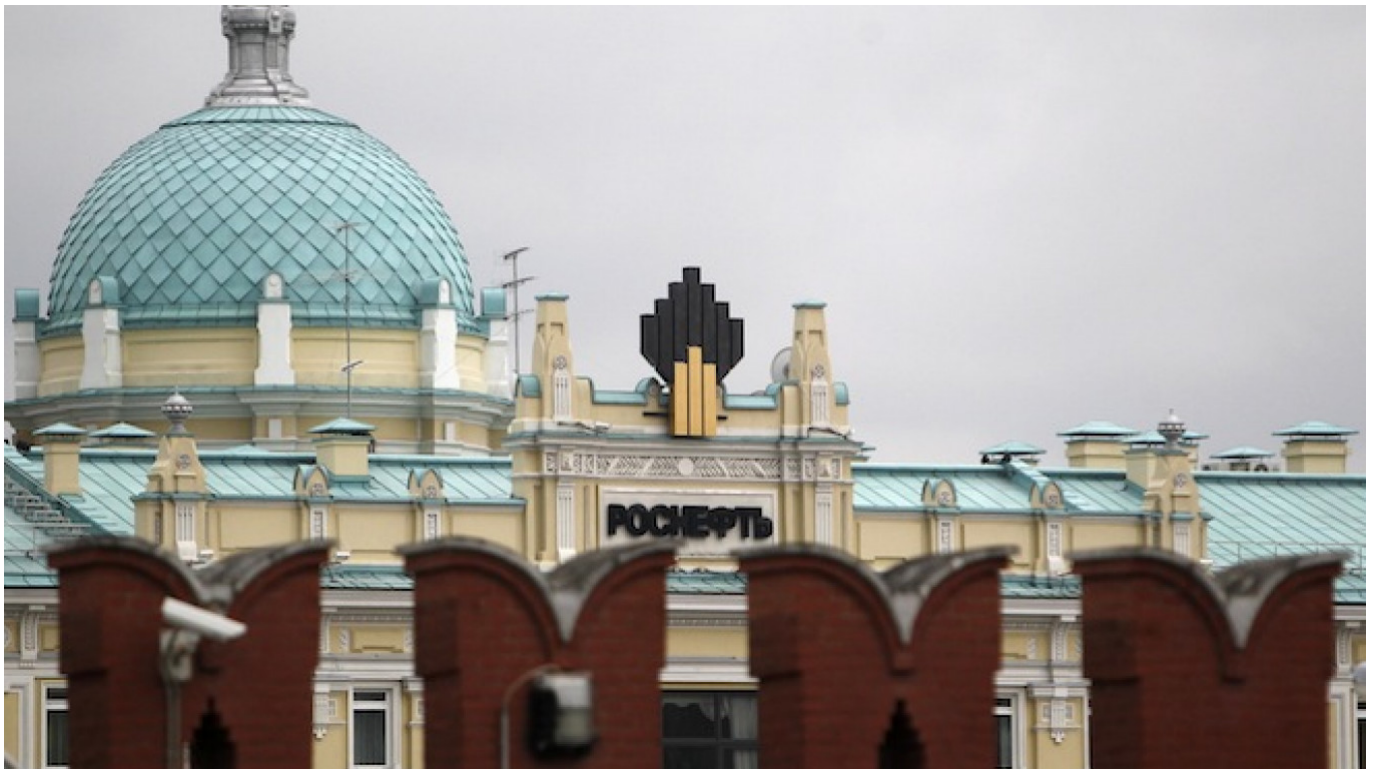


Oil Giant Rosneft Requests Massive State Support to Withstand Sanctions

By [The Moscow Times](#)

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The logo of Russia's top crude producer Rosneft is seen at the company's headquarters, behind the Kremlin wall, in central Moscow.

Russia's Rosneft, which produces more oil than Iraq or Iran, is seeking a \$42 billion loan from a fund earmarked for Russian pensions to help it weather Western sanctions imposed over Moscow's role in Ukraine.

Analysts expected the Russian government to turn down the proposal by the world's largest-listed oil producer, one-fifth owned by BP and run by a close ally of President Vladimir Putin, unless political pressure is brought to bear.

It was one of the most stunning of several proposals for the Russian state to help firms hit by U.S. and European sanctions over Moscow's annexation of Crimea in March and role in subsequent fighting in eastern Ukraine.

A government source said the company had asked the National Wealth Fund to buy 1.5 trillion rubles (\$41.6 billion) of its bonds to cover its net debt.

Deputy Prime Minister Arkady Dvorkovich told Russian news agencies it would take the government two weeks to come up with an answer. Rosneft declined to comment.

Most of the \$86 billion fund, built up from oil revenues to help finance a growing state pension deficit, has been invested in infrastructure projects to try to boost the economic growth that drove Putin's popularity during his first decade in power.

"The state's financials have little room to accommodate a request for funding on such scale," brokerage Otkritie said in a note. "Enthusiasm to support the country's largest tax payer via a reversal of the cash flow will be limited."

Russia relies on energy for half its budget revenues and needs dozens of billions of dollars to sustain production from new tight oil reserves and Arctic deposits to finance Putin's soaring military and social costs.

Analysts said that Rosneft's long term prospects had been hurt by the sanctions but that loans from China meant it was in reasonable shape for now.

Russia, meanwhile, is on the brink of recession due to plummeting investment and near record capital flight, with an aging population whose pensions are increasingly in doubt.

Rosneft head Igor Sechin, also targeted individually by U.S. sanctions, said the company needed the money to help it cope with a ban on U.S. credits and loans with a maturity longer than 90 days, which European banks and investors have joined.

In a further sign that sanctions were taking their toll, gas giant Gazprom, which supplies Europe with one-third of its gas needs, reported its first year-on-year loss since 2008, even though it is not directly targeted by the U.S. or EU restrictions.

Analysts said the gas pipeline monopoly, which has cut supplies to Ukraine, could end up reducing supplies to Europe as well due to growing international tension over pro-Russian separatists fighting government forces in eastern Ukraine.

'Horrible'

An anonymous official cited by business daily Vedomosti called Sechin's plan "horrible," and another government source told the paper that Prime Minister Dmitry Medvedev was unlikely to back it.

U.S. and European sanctions have drastically limited access to Western banking money and modern oil technology while not targeting current production.

Debt markets have been shut for all Russian companies from July, regardless of whether they have been directly targeted, but timid signs of a market reopening for Russian borrowers have emerged over the past week.

Evraz has closed a \$425 million syndicated loan with European banks and LUKoil got a \$1.5

billion bridge loan from U.S. banks.

While Western bankers can no longer fund Rosneft, many say they are not yet worried about its financial situation.

The company needs to repay 440 billion rubles (\$12 billion) by year-end and another 626 billion rubles (\$17 billion) next year, according to its latest presentation. But it generates enough cash to repay those debts.

"Rosneft has dozens of billions of dollars of credit lines opened with China," one senior banker with a U.S. lender said.

However, longer-term prospects for the world's largest holder of oil reserves among listed companies are less clear.

Last year, Sechin said Rosneft needed \$0.5 trillion to develop Russian Arctic fields. Analysts from Merrill Lynch said the Arctic program had long been seen as one of the bright spots of Russia's future economic development.

"The sanctions on U.S. and EU offshore and tight oil equipment might seem light at the first glance. They neither affect current production nor did they halt near-term exploration," analysts from Merrill Lynch said.

"The longer-term effect on the Russian economy can be far larger from the lost multiplier effect of foregone infrastructure investment," they said.

The bank said some \$800 billion of direct investment and the multiplier effect on the Russian economy from tapping huge offshore and tight oil resources was now at risk.

First Loss Since 2008

Apart from Rosneft, sanctions have also been imposed on empires of businessmen close to Putin such as Gennady Timchenko or Arkady Rotenberg, as well as large state and private banks.

Gazprombank, VEB and Russian Agricultural Bank have also asked the state for help.

In June, Putin suggested a \$50 billion recapitalization of Gazprom with the use of forex reserves, something the government has not approved yet, another indication the funding request for Rosneft may also not necessarily materialize.

In June, Gazprom suspended deliveries to Ukraine over unpaid bills and the market fears a repeat of the two supply crises of the past decade when deliveries to the European Union via Ukraine were also halted in the middle of winter.

On Wednesday, Gazprom reported its first quarterly loss since the financial crisis of 2008 on the back of \$5 billion of overdue receivable, mainly from Ukraine.

"Gazprom's problems in Ukraine do not stop there," analysts from state-controlled Sberbank CIB said in a note.

"Deliveries are halted for now and if no agreement is reached before the start of the peak season, we see several possible scenarios, ranging from the continuation of non-deliveries to Ukraine ... to Gazprom ... shutting off gas transit and sacrificing deliveries to Europe," they said.

See also:

[Sechin Brands U.S. Sanctions on Rosneft 'Illegal'](https://www.themoscowtimes.com/2014/08/14/oil-giant-rosneft-requests-massive-state-support-to-withstand-sanctions-a38339)

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