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U.S. Nixes Purchase of Morgan Stanley Oil Trading Unit by Russia's Rosneft

By The Moscow Times

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People dressed as Father Frost, the equivalent of Santa Claus, and Christmas tree walk past Russian oil company Rosneft's office during a parade in the Russian southern city of Krasnodar Dec. 20.

The ambitions of Kremlin-controlled oil champion Rosneft to boost its global reach have been reined in by U.S. authorities, which torpedoed its acquisition of a Morgan Stanley oil trading business.

Rosneft, headed by Igor Sechin, a long-standing ally of Russian President Vladimir Putin, said on Monday that the deal was terminated because of the refusal by U.S. regulators to grant clearance.

"Having invested substantial efforts in the deal, the parties regret that it could not be completed," said Rosneft, in which BP holds a 20 percent stake.

Morgan Stanley also said that the deal was terminated and that it will now consider a variety

of options.

The collapse of the deal, valued by sources at between $300 million and $400 million, is yet another blow for Rosneft after its partners, including ExxonMobil, withdrew from projects to develop Arctic offshore oil deposits following the introduction of Western sanctions over the Ukraine crisis.

The Morgan Stanley deal was agreed in December 2013, when Sechin said that it would spearhead the company's growth in the international oil and products markets.

Since then, however, the West's sanctions and a plummeting oil price has prompted Rosneft to seek state support from Russia's National Welfare Fund.

The strained relations with the West have already forced German chemicals group BASF and Russia's Gazprom to halt a gas assets swap planned for this year.

Sources told Reuters in September that Rosneft might abandon the Morgan Stanley deal because sanctions had hurt its ability to finance the operations.

The fall in its share price and the ruble's collapse have left Rosneft with a market capitalization of $31 billion, against $45 billion of debt that was mainly incurred with last year's purchase of oil producer TNK-BP.

Rosneft shares rose as much as 7 percent in Moscow trading, with investors encouraged by the end of the company's spending spree. The shares finished the day with a gain of 2.5 percent, against a 0.8 percent decline for the broader market.

"Of course, it's not bad that Rosneft has stopped, at least here. If one has to buy something in such a difficult situation, one would not only have to ask for help from National Welfare Fund but also from the riches of the entire motherland," Kapital portfolio manager Vadim Bit-Avragim said.

Earlier in the day, the company said it had met a $7 billion loan repayment, partially easing fears among investors that Western sanctions could prompt mass defaults.

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