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Britain Gives Russian Tycoon Fridman 7 Days to Justify Buying Gas Fields

By The Moscow Times

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Britain on Wednesday told Russian oligarch Mikhail Fridman he had seven days to explain why he should be allowed to retain ownership of newly acquired oil and gas fields in the North Sea or face being forced to sell them.

Upping the ante in a standoff that could deter other Russians from investing in Britain, Ed Davey, Britain's energy minister, wrote to Fridman saying he would accept further representations, but was considering forcing him to sell North Sea assets just acquired from German utility RWE.

RWE on Monday finalized the sale of its oil and gas production unit DEA UK to Fridman's investment vehicle LetterOne, ending months of uncertainty over whether the 5.1 billion euro ($5.7 billion) deal would go ahead.

But the British government has said it is concerned that production at the fields could be halted if the West imposes more sanctions on Russia over Ukraine, and it therefore wants

them sold to a third party.

"Ed Davey has given them seven days to explain why the Secretary of State should not now proceed to issue Notices under the Licences to require further changes of control," the department of energy said in a statement.

"Protecting these assets is the Secretary of State's priority."

Earlier on Wednesday, a government source said Britain would not drop its opposition to Fridman's purchase of the assets after cementing its objections at a meeting chaired by Prime Minister David Cameron.

The dispute shows how a sanctions policy designed to put pressure on President Vladimir Putin is also creating headaches for Western companies and governments.

Two months before a British general election, the prospect of a Russian tycoon buying British energy assets is politically unpalatable at a time of deepening concern over Putin's Ukraine policy and the direction of Russia, where opposition figure Boris Nemtsov was shot dead last week within sight of the Kremlin.

The oil and gas deal "was discussed at the highest level, a sign of how seriously we take the matter," the British government source, who spoke on condition of anonymity, said earlier Wednesday.

"The government is not going to change its position on the matter," the source said.

Britain, which styles itself as a champion of free markets with one of the world's most open economies, rarely intervenes in such cases and its stance reflects deep unease in London with Putin's actions in Ukraine, where more than 6,000 people have been killed in fighting between government forces and pro-Russian separatists. Moscow denies backing the rebels.

"There are wider diplomatic issues here, including the sanctions," said a separate British source familiar with the case. "These are difficult conversations but the politics with Russia are very difficult."

Britain's position — which places one of Russia's most successful oligarchs on a collision course with the leaders of the world's sixth largest economy — may also indicate that Britain is cooling towards Russian investments.

Any move to prevent Russian investment in the West would be closely watched by the tycoons who control swathes of Russia's now struggling economy.

Forced Sale?

LetterOne, Fridman's Luxembourg-based investment vehicle, has hired John Browne, the ex-CEO of BP, as executive chairman of its energy division, saying it wants to use North Sea assets as a platform for global expansion.

Earlier on Wednesday, LetterOne said it was still keen to work with the British government to find a solution that would allow it to buy assets in the North Sea.

"We are keen to work with the government and will leave no stone unturned to find a solution in the interest of everyone concerned," the fund said.

Ukrainian-born Fridman, who made a fortune in Russia after the Soviet Union collapsed in 1991, has tried to allay British worries by grouping the assets at the center of the dispute in a Dutch foundation, a step he says would insulate them from any possible sanctions.

That falls short of what Britain wants.

Though Britain does not have the power to prevent the sale of the fields, it can compel Fridman to sell the interests to another company it deems acceptable. If Fridman doesn't comply, it can revoke the licences for the North Sea assets.

Londongrad Shaking?

Britain, whose relations with Russia have plunged to their lowest level since the Cold War, has styled itself as one of the EU's most vocal advocates for continued and expanded sanctions on Moscow unless it changes course in Ukraine.

But that sits awkwardly with Britain's position as one of the main Western destinations for money and people from the former Soviet Union. Oligarchs have purchased some of the most opulent properties in a capital nicknamed 'Londongrad' because of a Russian population estimated at 150,000.

A businessman with holdings in Russia and the United Kingdom said blocking Fridman's purchase would be a significant step.

"That would clearly be seen as a signal that Russian investments are no longer needed in Britain," he said on condition of anonymity, due to the sensitivity of the situation.

Government sources said Britain had been influenced by a case in 2010, when it had to shut down the North Sea Rhum gas field because of sanctions imposed on its Iranian co-owner.

The fields Fridman is purchasing produce 3 to 5 percent of Britain's gas output.

Fridman, 50, is ranked by Forbes as the world's 68th richest person with a fortune of $14.6 billion, while his business partner German Khan, 53, is ranked 133rd with $9.5 billion.

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