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Russian Tycoon Fridman's Gas Deal in Limbo Until After British Elections

By The Moscow Times

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Russian oligarch Mikhail Fridman

Russian oligarch Mikhail Fridman's battle to salvage his North Sea gas fields purchase will take weeks if not months to resolve as the British cabinet has left it for the next government to take the decision, sources said.

Sources familiar with the discussions said the extent of the delay would depend on the outcome of the general election in May.

Banking sources said the delay would prolong the uncertainty around ownership of the assets and complicate the bank lending necessary to continue investments in them.

However, the assets are already generating cash for Fridman and will continue to do so during the delay, which will give the oligarch more time to mount a strategy on persuading the next government that he is the right owner for the fields.

Britain has opposed the purchase of 11 gas fields by Fridman's LetterOne fund from Germany's RWE, as part of a 5 billion euro ($5.4 billion) acquisition of RWE's oil unit DEA.

Britain argues the deal's structure does not alleviate concerns that any possible future sanctions against Russia for its actions in Ukraine, which could include LetterOne's owners, could negatively affect production.

Fridman has threatened to sue the government if it forces his company to divest UK assets, but later hired consultants to consider other options including a sale or a swap of North Sea fields.

Sources said Prime Minister David Cameron's cabinet, including Energy Secretary Ed Davey, did not meet to discuss the issue this week.

Britain's parliament held its final pre-election session on Thursday and will be officially dissolved on Monday, leaving ministers still technically able to make decisions but bound by convention not to come out with major announcements.

"This government will certainly not take a final decision. It will be weeks if not months before a new cabinet comes back to the issue," one source familiar with government discussions said.

Another source said parliament members have told the government they would want to convene a hearing if the deal was approved.

"No one will take the risk of making a final ruling now," the second source said.

The move by the British Energy Ministry to block the deal was supported by Cameron and involved discussions with security officials — highlighting how high up the ranks the debate about Fridman's investment has gone.

Fridman hired John Browne, former chief executive of BP, to help expand DEA globally, including in the United States, and possibly salvage the North Sea deal.

Britain's Energy Ministry and LetterOne declined to comment for this story.

Test Case for Russian Elite

The battle by Fridman is being watched by Russia's wealthy elite for signs whether attitudes towards their investments are changing after decades during which billions of dollars have flown from Moscow into British companies and London properties.

The DEA transaction was first announced a year ago when the West imposed sanctions on Russia over the Ukraine crisis.

Many Russian companies and allies of President Vladimir Putin have been hit by sanctions over the past year and many politicians in Europe have voiced concerns about Russian investments abroad.

However, Fridman's dispute is the first of its kind in which a transaction by a Russian

company and individual not targeted by sanctions has come under threat amid the worst stand-off between Russia and the West since the end of the Cold War.

The clash between Fridman and Britain reached a peak last month when Davey blocked the deal and told LetterOne to submit new assurances or sell the assets. On March 11, LetterOne responded but has not heard back since.

"The North Sea assets are making money for LetterOne because it already owns the fields. So while the government is thinking what to do next, LetterOne will make a few more millions. It is a nice problem to have," one banker familiar with the deal said.

North Sea fields represent 3 to 5 percent of UK gas output and are not the biggest assets of DEA, which also produces oil and gas in Norway, Egypt, Libya, Germany, Poland, Turkmenistan and Algeria.

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