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The Battle Behind Bashneft's Delayed Privatization

The Russian government has delayed the Bashneft sale amid signs of a power struggle.

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The two heads of the oil majors bidding for the state stake in Bashneft — Igor Sechin of Rosneft and Vagit Alekperov of Lukoil. **Sergei Guneyev / RIA Novosti**

Russia's privatization process is like a scratched record: the same endless story, the same screeching sounds. Since it was launched under then-President Dmitry Medvedev in 2009, Russia's free-market oriented officials have pushed for the sale of state assets. And they have repeatedly failed.

The government announced that the privatization of 50.1 percent stake in the state oil company Bashneft will be delayed until further notice. The next day, Bashneft shares fell as much as 15 percent. They closed the day down 8.2 percent.

The postponement will have serious consequences. The sale should have brought in up to 315 billion rubles ($4.9 billion) to the state treasury — a significant source of income for Russia's budget in 2016. Instead, the postponed privatization will speed up the depletion of Russia's rainy day Reserve Fund. According to the Vedomosti newspaper, this will now happen before the end of the year.

According to the RBC newspaper, the formal reason for delaying the sale was an appeal by the republic of Bashkortostan's president Rustem Khamitov. The republic currently has a 25 percent stake in the company, and supposedly raised concerns over whether it would be able to fulfill its social obligations to the republic post sale.

But insiders and observers doubt this was the real reason. Instead, they point to the fact that the two major contenders for the state stake of Bashneft were private oil giant Lukoil and state oil company Rosneft.

Many in government had doubts over the participation of latter. After all, what privatization can take place without the transition of state-owned property into private-owned property?

"It is nonsense, how can a state-owned company buy another state company? This is not a privatization," presidential aide Andrei Belousov said at the end of July. The comments were in response to Rosneft officially applying to take part in the tender.

In fact, Russia's laws forbid state companies from taking part in privatization. But, for Rosneft, semantics provide wiggle room. As Rosneft stressed, the government does not own it directly, but via state owned company, Rosneftegaz.

"Technically speaking, Rosneft is not a state company," President Vladimir Putin's spokesman Dmitry Peskov
confirmed when asked about the matter.

Rosneft has had an interest in Bashneft since Bashneft
was de-privatized in 2014 and taken
over from its previous owner, Russia's billionaire Vladimir Yevtushenkov. Yevtushenkov was charged with money laundering. The charges were dropped when he lost the company.

Acquiring Bashneft and its untapped oil assets in Russia's far north would allow Rosneft to improve its own financial situation, experts noted. There was little surprise when Rosneft announced it would take part in the privatization of Bashneft with Lukoil as its only competitor.

By early August, it was clear a big struggle was taking behind the scenes. Government officials apparently stood firm, according to the Kommersant newspaper. "Lukoil looked like the preferred customer," the paper alleged. A source close to the government confirmed an official consensus had been reached, and that "everyone understands Bashneft should not be owned by Rosneft — it's against the rules and common sense."

That said, Russia's leadership is indecisive, as it often is when it comes to privatization of natural resources. Handing the assets to private hands would simply mean giving big profits

to individuals.

From this perspective, the postponement of the Bashneft sale perfectly fits the history of Russia's privatization program in recent years. They all start with big ambitions and forceful announcements. And they end up, ultimately, with nothing.

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