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Rosneft entering the German oil market

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On 15 October, during the visit of the Venezuelan president Hugo Chavez in Moscow, the Russian corporation Rosneft signed an agreement with the Venezuelan oil company PdVSA. Under the agreement, PdVSA sold all its shares in five German refineries to Rosneft. Owing to this deal, Russia's largest oil company will have its first assets in the EU, gaining an 11-percent share in the German crude oil refining market. Rosneft's entry to Germany is an element of an accelerated expansion by Russian companies in the EU oil market, which has been observed over the past few years, especially in Central European countries. Rosneft's presence on the German energy market may improve the security of oil supplies to Germany. Nor should it be ruled out that Russia will continue transporting oil via the Druzhba pipeline after an alternative route running to the port of Ust-Luga has been built (BPS-2).

The new German assets of Rosneft

The Venezuelan state-controlled oil company PdVSA sold Rosneft assets it had held since 1983, namely a 50% stake in Ruhr Oel GmbH, which controls a 100% stake in two refineries in Gelsenkirchen (which have a total capacity of 13 million tonnes annually), a 37.5% stake in PCK Schwedt (10.5 million), 25% in Bayernoil in Ingolstadt (12 million), 24% in Germany's largest refinery Miro in Karlsruhe (14.9 million) and 100% in the chemical plant in Münchsmünster (3.8 million). As a total, Ruhr Oel has nearly 23% of the German refinery market, and its refineries are among the most modern facilities in Germany. The transaction price reached US$1.6 billion, which can be seen as a preferential price. It seems that the agreement on the sale of PdVSA's German assets was part of a greater Russian-Venezuelan deal, which also includes an initial agreement on Russia constructing a nuclear power plant in Venezuela and Caracas's consent to the takeover of Venezuelan assets in BP by the Russian corporation TNK-BP. Rosneft entered Ruhr Oel owing to consent from Ruhr Oel's second largest shareholder, BP (it held the right of pre-emption), which, according to unconfirmed reports, was given in exchange the opportunity to participate in Rosneft's projects on the Russian offshore.

It is curious that Rosneft has decided to invest in Germany despite being the most indebted Russian oil company (its debts are at a level of US$16 billion). Furthermore, the European oil refining sector has been barely profitable over the past two years. Many refineries have been put on sale and are unlikely to generate any profits in the next few years. Certainly, Rosneft, which is 75% owned by the state, was supported by the Kremlin while entering the deal. Deputy Prime Minister Igor Sechin – who supervises the Russian oil sector, is coordinating the Russian-Venezuelan cooperation and at the same time is the chairman of

Rosneft's board of directors – was personally lobbying for the investment. The takeover of the German refineries fits in with the Russian strategy of expansion onto the EU market. From Rosneft's point of view it is vital that it can supply its own oil to the German refineries via the Druzhba pipeline (Schwedt), by sea to Wilhelmshaven port (Gelsenkirchen) and from Italian ports via the TAL pipeline (Karlsruhe and Ingolstadt). This transaction must also be approved by the German and EU anti-trust offices. This, however, is merely a formality.

Conclusions

1. From the German perspective, Rosneft's entry onto the market should improve the security of Russian oil supplies because the company will be interested in supplying its own oil. This is especially important for refineries in eastern Germany, which heavily rely on supplies from the Druzhba pipeline, and may convince Russia to continue using this route of supply after the launch of the new BPS-2 pipeline, set to run to Ust-Luga. Rosneft could also supply oil via the maritime terminal in Rostock. However, this solution would require a costly development of the Rostock–Schwedt pipeline. Nevertheless, temporary problems with supplies to Schwedt cannot be ruled out in the next few months if no agreement is reached with the trader Sunimex (it has been the middleman in supplies of Russian oil to the refinery since the 1990s), which Rosneft in all likelihood will want to eliminate. Moreover, the presence of the Russian company on the German fuel market will improve the level of competition, if (which is likely) it embarks on developing its own chain of filling stations.

2. From the perspective of Central European countries, the entry of Rosneft to the German oil sector will not bring any major consequences in the short term. Although the Schwedt refinery sells approximately 1 million tonnes of fuel annually (approximately 4.5% of the Polish market) to western Poland, the quantities are unlikely to increase in the immediate future due to the high costs of transport to Poland and lower margins than in Germany. In the longer term, when Rosneft's position becomes stronger and more Russian oil companies may enter the German market, they are likely to become interested in the markets of the neighbouring countries. This fits with the Russian strategy of dominating the Central European oil market.

3. Rosneft's takeover of shares in German refineries is part of the process of expansion of Russian oil companies in the EU which has been observed over the past few years, especially in the countries to which they can supply their own oil. This allows the refineries controlled by Russian companies to compete on price more effectively and increase their share of the market. This process is accompanied by the withdrawal of some large Western companies from the EU oil market due to a significant decrease in the sector's profitability. Therefore, the role of Russian companies in the EU oil refining sector may be expected to grow in the longer term.