

Russia: Rosneft announces it will take control of TNK-BP

Ewa Fischer

On 22 October, Rosneft announced the conclusion of an agreement with BP to buy back 50% of shares in TNK-BP (which BP owns) for US\$17.1 billion, as well as 12.85% of Rosneft own shares. For part of that sum (\$4.8 billion) – after the government and the relevant authorities (including the anti-monopoly service) give their formal approval – BP will buy a 5.56% stake in Rosneft (from the state-owned Rosneftegaz company). If the deal is finalised, BP's share in Rosneft's capital will have risen from the current level of 1.25% to 19.75%.

Rosneft has also agreed a pre-investment with the Russian AAR consortium (Alfa Group, Access Industries and Renova) to buy back the remaining 50% stake in TNK-BP owned by the consortium for US\$28 billion. The details of both transactions are to be agreed by mid-2013.

This transaction would allow Rosneft to take total control over TNK-BP, the third largest Russian oil company by extraction (which produced about 84 million tonnes in 2011). Rosneft plans to finance the transaction from its own funds, loans from Western banks, and funds raised from a bond issue.

Commentary

- If the buyout of 100% of TNK-BP – which has been planned by Igor Sechin, the head of Rosneft and President Putin's closest associate – is carried out as planned, the partly state-owned Rosneft's share in the Russian oil sector will increase to about 40% (by output). The Russian company will become the world leader on the oil market in terms of resources. The proposed transaction will be the most expensive in the history of the Russian fuel and energy sector, and will mean a further strengthening of the Kremlin's influence in the strategic oil sector.
- On one hand, the alliance between Rosneft and BP should give Russia access to the latest technologies for developing and producing crude oil from the fields in Western Siberia, which are difficult to exploit, as well as from the Arctic shelf. On the other hand, however, the deal would increase Rosneft's debt to over US\$70 billion, which may make it harder to pay off its financial obligations if there is a downturn on the world oil market.
- By taking a stake of nearly 20% in Rosneft, BP is aiming to maintain its position as the dominant foreign investor on the Russian market. The British company is planning for the long term, hoping to gain access to the promising new fields via its alliance with Rosneft (at the moment, the state-owned companies Rosneft and Gazprom have the exclusive

rights to exploit the shelf deposits). This is confirmed by BP and Rosneft's attempt in 2011 to sign a deal on the joint implementation of projects on the Kara Sea shelf. That deal was blocked by the AAR consortium; according to the TNK-BP charter, the British company could only implement projects in Russia with a Russian partner. In addition, the sale of shares in Russia's TNK-BP could help solve BP's financial problems; their debt at the end of June 2012 amounted to US\$31.7 billion.

Co-operation: **Ewa Paszyc**