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Russia: Speculation on changes in ownership within TNK-BP

Iwona Wiśniewska

On 1 June, the British energy company BP announced that it had received a non-binding proposal to purchase its shares in the Russian oil company TNK-BP, but did not reveal the name of the potential investor. This information has exacerbated the conflict between TNK-BP's Russian and British shareholders. Since 2003, BP has owned a 50% stake in TNK-BP, which is the third largest petroleum company in Russia; the remaining 50% is owned by the Russian consortium Alfa Group/Access Renova (AAR), 25% of which belongs to Mikhail Fridman's Alfa Group, and 12.5% each to Leonid Blavatnik's Access and Viktor Vekselberg's Renova. The balance between the British and Russian interests in TNK-BP's management has led to paralysis within the company, and since 2008 they have been unable to agree on how the company should develop. The British are interested in concentrating on the Russian market, whereas the Russians want to get involved in foreign projects. The conflict worsened in 2011 when AAR blocked a transaction between BP and the Russian state company Rosneft to exchange assets and organise joint projects in the Arctic, claiming that such a transaction would violate the agreement between BP and AAR (which was confirmed by the Court of Arbitration in Stockholm). In recent months TNK-BP's board of directors has ceased functioning due to the lack of a quorum, and consequently key decisions for the company have not been taken, including the payment of dividends. The shareholders' dispute also relates to how they can leave the company. According to the Russian side, AAR has priority regarding the purchase of the British shares in TNK-BP. However, although BP acknowledges that it is obliged to negotiate the sale of AAR shares, it claims that the company does not have a right of first refusal. As TNK-BP's shareholder agreement is secret, it is difficult to determine which side is right.

Commentary

- BP's announcement means the company is likely to give up the current management model for TNK-BP, and attempt to reformulate it in a way which will be more favourable to the company, especially since AAR is not interested in maintaining this model either. However, it seems unlikely that the British shareholders really want to withdraw from the Russian oil sector, as this would significantly reduce BP's capitalisation. Its shares in the joint company cover up to 27% of its resources and 29% of the extraction. Over nearly a decade of TNK-BP's operation, the British company has invested about US$8 billion in it, yielding dividends of about US$19 billion.

- There are several possible scenarios:

- One of the shareholders takes control of TNK-BP. This seems unlikely at the present time. The Kremlin is reluctant to hand control of strategic assets over to foreign entities, and the Russian consortium which blocked the deal between BP and Rosneft in 2011 was going against the plans of the main ‘curator’ of the Russian oil sector, Igor Sechin (who is now head of Rosneft); such a move might induce him now to retaliate against AAR.
- The emergence of a third partner, who could buy some shares from each party; this would end the paralysis within the company's management. However, with the current lack of trust between the partners, it will be difficult to find anyone who would be acceptable to both parties.
- It is therefore most likely that the Russian state will get involved in the dispute. Igor Sechin has repeatedly demonstrated an ambition to create a strong entity within the Russian oil sector under state auspices. It is possible that the state-owned entities he manages will try to take control of TNK-BP, although such a move could meet with resistance from some parts of the Russian elite, who would fear the excessive strengthening of this policy.