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A ‘Gazprom for the oil sector’?

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On 22 May, President Vladimir Putin signed a decree concerning the principles for privatising the Russian energy sector during 2013-15. The President has decided that by 2015, the state company Rosneftegaz will have bought up the shareholdings of the other energy companies designated for privatisation (such as the oil company Zarubezhneft and the oil transportation monopolies Transneft and Transnefteprodukt: see the Appendix). Rosneftegaz was established in 2004, to allow the state to take a controlling stake in Gazprom, and was then used to acquire the assets of Yukos after the latter was declared bankrupt. It currently owns a 10.74% stake in Gazprom, 75.16% of Rosneft, and 7% of the Caspian Pipeline Consortium. According to the new decree, the Russian government will also allow the privatisation during 2013-15 of some of the share packages which Rosneftegaz will hold, but this move will depend on the situation on the global markets at that time.

Commentary

- The president’s decision allowing Rosneftegaz to take over shares in state companies can be explained by the situation on the financial markets, which does not favour privatisation. Rosneftegaz’s investments are intended to help with the recapitalisation of public companies, and to prevent these assets from being sold at unfavourable rates. However, there is no guarantee that their acquisition will be purely temporary, or that a changing economic situation would in fact lead the state to privatise these companies. Consequently, the president's current decree may serve to consolidate the oil companies’ assets in state hands, and to build up a dominant company in the oil sector along the lines of Gazprom in the gas sector – the more so as the state is also interested in taking over private oil companies, such as Surgutneftegaz.

- The main proponent of consolidation of the energy sector’s assets is the ‘curator’ of the oil sector, Igor Sechin; he is the chairman of Rosneft, and (at the president’s recommendation) will soon become head of Rosneftegaz’s board of directors. Sechin has repeatedly objected to plans to limit state participation in the sector, as reportedly put forward by Dmitri Medvedev (who as prime minister is responsible for the issue of privatisation in Russia).

- Nevertheless, the presidential decree does not guarantee that the consolidation of the oil sector will be a success. Any potential investment by Rosneftegaz – especially in the transportation companies, which determine the direction of Russian oil exports – would mean Sechin's increased control over the oil sector, especially over the private oil companies. Consequently, the consolidation of these assets would strike at the interests of many players in this market, and would strengthen Sechin's position in the ruling elite considerably. Therefore, this process can be expected to be blocked, given the previous unsuccessful attempts to make acquisitions in the sector (for example, in recent years Rosneft, also controlled by Sechin, failed to take over Surgutneftegaz).

- Acquisition of assets by Rosneftegaz would not solve the oil sector's problems. Privatisation was supposed to serve not only the recapitalisation of the sector and the support of public finances, but also to attract new technologies and reverse the sector's negative trends (production is currently stagnant, and a decline in production after 2015 is projected). And so, it is possible that the state will end up privatising the minority stakes in the sector.

Appendix
State companies in the Russian oil sector