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# The UK wants to block the sale of RWE DEA to Russia

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RWE plans to sell its subsidiary, RWE DEA, to a Russian investment fund, LetterOne, this year. According to the *Financial Times* of 16 October this transaction may be blocked by the UK government, which is the owner of all the natural resources in the UK and makes decisions about granting concessions for mining British resources. The Hungarian company MOL – which is one of the companies interested in buying RWE DEA - expressed its was willing to resume talks on taking over the company the same day. In March this year RWE agreed to sell RWE DEA for 5.1 billion euros to LetterOne. The fund is indirectly controlled by Mikhail Fridman, the owner of one of the largest investment funds in Russia – Alfa Group.

RWE DEA extracts gas and produces oil and gas in 17 countries across the world (including Germany, the UK, Poland, Libya and Egypt). It extracts approximately 58% of its gas and 35% of its oil is in Germany. A further 14% of the company gas production is extracts in the UK. The company has 1,400 employees. Last year it registered sales of 2.1 billion euros and profits of 0.9 billion euros.

## Commentary

- The closing of the transaction required agreement from ministries in Germany and the UK because RWE DEA operates in the strategic energy sector. The German economy minister Sigmar Gabriel accepted the transaction and, although the UK energy minister Ed Davey was initially inclined to give it the green light, he changed his position following the imposition of sanctions on Russia by the EU. Despite the fact that the UK does not support the agreement, it may yet still be signed. The risk remains, though, that the government will then decide to prohibit the mining of British natural resources controlled by the Russians.
- The reservations expressed by the UK regarding Russia taking over RWE DEA's British assets may cause the whole transaction to fall through. This would spell trouble for RWE as the company has considerable financial difficulties due to the economic crisis in the EU and the energy transformation project being implemented by the German government which is leading to decreased profitability for RWE's conventional power plants. Should the transaction not be finalised, RWE may sell RWE DEA without the British assets or accept the offer from MOL.
- Blocking the sale of RWE DEA to LetterOne may present advantages for Germany. Public opinion in Germany is fearful of the risk connected to Russia purchasing RWE DEA as it would thereby also take control of three gas storage facilities in Germany (with a

combined capacity of 500 million m3); this represents 7.5% of the capacity of German gas storage facilities. This would mean that although the UK's decision to block the sale may slow down the increase in Russia's influence on the energy market in Germany, it will not cause any tension in relations between Berlin and Moscow.