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CENTRE FOR EASTERN STUDIES 14.01.2015 www.osw.waw.pl

Rosneft to invest in Georgia

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On 29 December the Russian state energy company Rosneft announced the purchase by its subsidiary RN-Foreign Projects of a 49% stake in Petrocas Energy Ltd., a holding company registered in Cyprus, belonging to David Iakobashvili (a Russian businessman who was born in Tbilisi and has Swedish nationality). By so doing, Rosneft received shares in the terminal for petroleum products in the Georgian port of Poti (capacity c. 1.9 million tonnes per year), which Petrocas owns, as well as a network of 140 Gulf service stations in Georgia, among other items. The value of the transaction has not been disclosed.

The Georgian government, including the economy and energy ministers, has stated that they cannot influence the business decisions of private entities such as Petrocas. However, the opposition United National Movement (Mikheil Saakashvili's party), has attacked the government for allowing the transaction, and indicated that it could be blocked by invoking the Law on Occupied Territories (Rosneft operates in Abkhazia).

Commentary

- Rosneft had previously used the terminal in Poti (and to a lesser extent Batumi) to transport petroleum products to Armenia, where the company has had a virtual monopoly of supply since the abolition of Russian export duties on oil products to that country in 2013. Ensuring the security of the transport of petroleum products to Armenia, especially in view of its accession to the Eurasian Union on 2 January this year, is one of the official justifications for the Rosneft deal. At the same time, by buying shares in the Poti terminal and Georgia's largest network of petrol stations, Rosneft has also achieved a significant position in the (socially sensitive) retail fuel market in Georgia.
- Given the limited business attractiveness of the Armenian and Georgian oil markets, and the degree to which Rosneft's activity is tied to Russian foreign policy, its purchase of shares in Petrocas should also be considered in the political dimension. Investing in the fuel industry in Georgia – even if on a limited scale and without imminent political consequences –strengthens the Russian presence in the South Caucasus in the infrastructure dimension. This must be balanced against the projects, proposed by Russia (either openly or behind the scenes), to expand the transport system connecting its territory to Armenia via Georgia, including a railway line (through Abkhazia), and a road link from Dagestan. This fits in with the increase in Russian activity in the South Caucasus area which has been observed for several months.

- The Georgian government's acceptance of the transaction is a manifestation of Tbilisi's change in attitude in relation to Moscow, in comparison with the governments of Mikheil Saakashvili, when Russian entities invested in Georgia in other areas (including in banking and electricity networks), but not in the energy industry. It seems that the current authorities are more likely to treat Russian companies positively, in the awareness of Russia's strengthening position in the region. One manifestation of this latter tendency is the Kremlin's move towards closer relations with Georgia's strategic partner in the Caucasus energy sector – Azerbaijan.