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Strengthening energy co-operation between Russia and India

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On 17th June Russia's largest oil company, Rosneft, signed a contract with a consortium of Indian companies – Oil India, Indian Oil and Bharat Petroresources - to sell off 23.9% of shares in Vankorneft, which is involved in extractions from the Vankor field (Krasnoyarsk Krai). This is one of Russia's largest oil and gas fields; in 2015 production from this field amounted to 22 million tons, which accounted for approximately 4.1% of Russia's total oil production.

Commentary

- The contract is further proof that the observed energy co-operation between Russia and India has been intensifying over the last two years. On 31st May the Indian company ONGC Videsh Limited and Vankorneft finalised the transaction in which Videsh purchased 15% of shares in Vankorneft. On 16th March Rosneft signed an agreement with the consortium to sell off 29.9% of shares in Taas-Yuryakh Neftegazodobycha (which extracts resources in East Siberia). Furthermore, on 8th July 2015 Rosneft and the Indian company Essar Oil Limited signed a ten-year contract for the export of 10 million tons of oil a year to India. The supplies will be launched following the conclusion of a binding agreement which will enable Rosneft to buy 49% of shares in Essar Oil Limited (on 8th July 2015 only a framework agreement was signed; it allows Rosneft to acquire 49% of shares in the Indian refinery Vadinar. The refinery's capacity makes it possible to process 20 million tons of oil a year).
- Following the completion of the transaction, the Indian companies will have 38.9% of shares in Vankorneft. The sale of a substantial proportion of shares in the company responsible for production in one of Russia's strategic oil and gas fields to foreign investors is an important change in Russia's energy strategy. To date, Moscow has pursued a policy of controlled and limited openness to foreign investments in its upstream sector, where selected Western companies were granted the right to participate in projects in the Arctic shelf (Eni, Statoil, Exxon Mobil) or in exploration of less significant land-based oil and gas fields (BASF, Total).
- Rosneft's openness to investments in the upstream sector stems from the company's difficult economic situation. This has been compounded by the EU and US financial sanctions and has compelled Rosneft to seek capital from 'non-Western' partners. This capital is being used not only for investments but also to pay off debts. Strengthening collaboration with India is highly likely intended to consolidate the position of Rosneft in

negotiations with Chinese companies since Russia has so far signed only framework agreements with China regarding co-operation in the upstream sector in Russia: the November 2014 agreement enabling the Chinese company CNPC to buy 10% of shares in Vankorneft and the September 2015 agreement signed between Rosneft and Sinopec regarding co-operation in extracting Russian oil in the Russkoye and Yurubcheno-Tokhomskoye oil fields in east Siberia (under the terms of the agreement the Chinese partner will have 49% of shares). Furthermore, on 17th June the Russian economic development minister announced that companies from India and other countries might take part in the privatisation of 19.5% of shares in Rosneft, whereas it had previously been stated that all shares might be sold to CNPC.