

A murky deal: a 19.5% stake in Rosneft has been sold

Szymon Kardaś

During President Vladimir Putin's meeting with Igor Sechin, the CEO of Rosneft, on 7 December, a public announcement was made about the privatisation of a 19.5% stake in the company. The shares are expected to be acquired by a consortium formed by Glencore, one of the largest firms trading in Russian oil, and Qatar's investment fund, the Qatar Investment Authority (QIA). The price is 10.5 billion euros – Glencore will pay 0.3 billion euros, QIA 2.5 billion euros, and Rosneft will pay 0.3 billion euros from its own funds. The remaining 7.4 billion euros will be paid using loans granted to the consortium by the Italian bank Intesa Sanpaolo and, according to Glencore, by Russian banks. The USA and the EU have announced that checks will be made to ensure this deal complies with the sanctions imposed on Russia.

Rosneft, Russia's largest state-controlled oil company (after the deal, the state-owned company Rosneftegaz will still have a 50.01% stake in the company), accounts for around 35% of the output and around 45% of the exports of Russian oil.

Commentary

- The information about the sale of shares in Rosneft to foreign investors came as a surprise; the company and government circles had suggested that the stake would be bought by Rosneft itself (which was the subject of a dispute between part of the government and the company's management). Most likely, the sudden change of the privatisation concept was intended not so much at gaining economic benefits for the Kremlin – since these were certain, regardless of the variant of the transaction – but rather at political benefits. By selling the shares in Rosneft to foreign investors (and not Rosneft itself), Russia is sending the message that, regardless of the sanctions imposed, it is capable of implementing strategic investments in which external partners are engaged. This is expected to offer it a greater chance of striking further deals with foreign firms. In turn, Russia has exploited the fact that an Italian bank has granted the loan for the deal to demonstrate the weakness of the Western sanction regime.
- For Rosneft itself, this variant of the deal is more beneficial than the purchase of its own shares. This will contribute to increasing the company's capitalisation, which is particularly important in the context of the dramatic decrease in its value in 2012–2015: from US\$94 billion to US\$37.2 billion. The prices of Rosneft's shares on the Russian stock market went up almost 13% between 8 and 14 December. It is also envisaged that Glencore and Rosneft will sign a long-term contract for Russian oil supplies as part of the

deal, and this would be beneficial to the Russian company in the context of intensifying competition among oil exporters.

- However, contrary to what the Kremlin and Rosneft are trying to suggest, the deal is highly opaque. Based on the information revealed, it is unclear who and in what proportions has bought the shares. Glencore's announcement that it has bought only 0.54% of the shares in Rosneft is contrary to information initially released by Igor Sechin – he suggested that each consortium member bought 50% of the block of shares. Furthermore, it has not been confirmed that Russian banks will take part in granting loans for the deal. On top of that, on 5 December, when the deadline for selling the shares set by the government passed, Rosneft issued 600 billion roubles (around 9.2 billion euros) worth of bonds (which were bought on the same day by an unidentified entity). Since both deals took place at the same time, it cannot be ruled out that Rosneft's privatisation has been financed using Russian funds.