

Germany: the state takes control of Rosneft's assets

Michał Kędzierski

On 16 September, the German government announced that Rosneft Deutschland (RND) and RN Refining & Marketing (RNRM), which are owned by the Russian company Rosneft, would be placed under the trusteeship of the Federal Network Agency (BNetzA) by 15 March 2023. The Energy Supply Act (*Energiesicherungsgesetz*) allows the federal government to take control of entities managing critical energy infrastructure in Germany by introducing a board of trustees to them if there is “real danger” that the “inability to meet obligations” will jeopardise the country’s energy security. In a directive published on 16 September in the Federal Journal of Laws the Federal Ministry for Economic Affairs and Climate Action (BMKW) claims that the decision had to be made due to the problems both companies had with the continuation of business relations with other market entities. Their business partners began to suspend cooperation or refused to establish cooperation. These problems have been accumulating since the EU imposed sanctions on Russia. This applies especially to companies from the financial, IT, insurance and the broadly understood service sectors. According to BMWK, these problems will increasingly prevent further activity of RND and RNRM and thus pose a threat to the stability of the supply of fuels and other petroleum products to Germany.

Furthermore, as regards the PCK refinery in Schwedt, in which Rosneft’s subsidiaries have a majority stake, it is pointed out in the directive that it is necessary to diversify oil supplies to Germany, and that Rosneft opposes this. Gazprom’s suspension of transmission via the Nord Stream 1 (NS1) gas pipeline was indicated as proof that Russia is no longer a reliable and stable supplier of energy resources.

During a press conference held on the same day, Chancellor Olaf Scholz (SPD), Vice-Chancellor Robert Habeck (Greens) and the Minister President of Brandenburg Dietmar Woidke (SPD) argued that taking control of Rosneft’s assets was a necessary move to guarantee Germany’s energy security. They also announced the establishment of a “fund for the future”, which will have over EUR 1 billion at its disposal, in order to support the East German refineries in Schwedt and Leuna and the port of Rostock. These funds are above all intended to finance investments to enable the replacement of Russian oil (including the modernisation of the Rostock-Schwedt oil pipeline and the development of the port of Rostock) and to initiate the green transformation of the PCK refinery. Its employees have also been assured that they will keep their jobs and current salaries. If their working time is reduced, the government will contribute to the wage bill.

RND and RNRM import, process and sell crude oil and petroleum products in Germany. Through them Rosneft co-manages three German refineries: it holds a 54.17% stake in PCK

in Schwedt, a 24% stake in MiRo in Karlsruhe and a 28.57% stake in Bayernoil in Vohburg/Neustadt (see map). This makes Rosneft, with a 12% market share, the third largest (after Shell and BP) oil company in Germany in terms of oil processing capacity. Currently, Russian oil is delivered via the Druzhba pipeline to two East German refineries – in Leuna and Schwedt. The Leuna refinery has already reduced the share of oil from Russia to 50% this year and decided to completely discontinue receiving oil from Russia by the end of the year. In the case of the Schwedt refinery, diversification was blocked by Rosneft. PCK has a 90% share of the fuel market in Brandenburg, Berlin (where it provides fuel to the airport, among other clients) and Mecklenburg-Vorpommern.

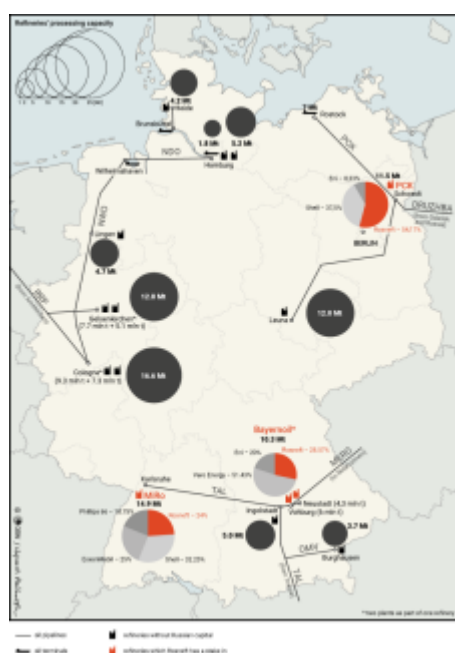
Commentary

- The government has been making preparations to take control of Rosneft's assets since April in view of the EU's planned embargo on imports of Russian oil. The legal tools that allow the introduction of trustees into companies and, as a last resort, their total or partial expropriation were adopted in mid-May (see [Germany: legal grounds for taking control of the Schwedt refinery](#)).
- At that time, BMWK also established a special working group for the future of the PCK refinery in Schwedt considering the planned embargo and the expected ownership changes. It took longer to implement the decision to take control of the assets from the Russians, firstly because Berlin feared provoking Moscow to retaliate in the oil or gas sector (the cutting-off of gas supplies by NS1 probably accelerated these actions) and, secondly, because it was necessary to make appropriate preparations, especially with regard to the most sensitive of assets, the PCK refinery.
- Since Rosneft lost control of its German assets, it has become possible to formally start efforts to provide alternative sources of oil supplies, especially to the refinery in eastern Germany. The preparations so far have been made partly behind the scenes to test the ground (the federal government and the local government of Brandenburg have cooperated in this respect mainly with Shell as a minority shareholder). However, the preparations could not be fully implemented. The new management structure of RND and RNRM from BNetzA will be able to make decisions, especially in the field of contracting supplies of crude oil other than Russian oil and the necessary investments in the modernisation of the Rostock-Schwedt oil pipeline and in the refinery itself (related to its conversion to process different quality raw material). Currently, PCK can only cover up to 60% of its demand via the Rostock terminal. After the planned investments in the port and in the oil pipeline are made, this share is expected to increase to 75%. The remainder could be imported through the Gdańsk Naftoport and the Pomeranian and Druzhba pipelines. In political terms, Berlin's takeover of Russian assets is intended to unblock talks with Warsaw on this subject because Poland has agreed to help Germany on condition that Rosneft's participation in the refineries is withdrawn.
- The introduction of a trusteeship into the RND and the RNRM does not mean that Rosneft has been expropriated. Formally, Rosneft remains their owner, but it will no longer be able to manage them as long as the trusteeship continues (although it was introduced for six months, it can be repeatedly renewed for the same period). Political developments indicate that the adopted solution will rather apply temporarily, until a way is found to carry out ownership changes and decide how to implement them. The law gives Berlin

the opportunity to make these changes for the sake of ensuring the country's energy security. Among the potential investors which have officially declared they are prepared to take over Rosneft's stake in the Schwedt refinery are: the Austrian-registered company Alcmene, which is a member of the Estonian Liwathon group; and the German biofuel producer Verbio. According to information provided by the Reuters Agency, Poland's Orlen, which has been present on the German fuel market for years, is also interested in investing in the refinery in eastern Germany.

1. It is still unknown how Russia will react to the German moves. Rosneft has already accused Berlin of unlawful expropriation and has announced that it will contest this decision in court. Germany is also expecting a political response from the Kremlin. It appears that the most likely scenario would see Russia reduce or cut off oil supplies to Germany. Moscow decided to retaliate in a similar way after Berlin took control of Gazprom Germania (GG) in April this year. The first move was to stop the transmission of natural gas to its subsidiaries from the GG group (see [Rosja: sankcje na wybrane unijne spółki gazowe](#)).
 2. Then, in a few steps, supplies were also reduced to other market players who officially were not covered by the sanctions. Representatives of the federal government have provided assurances that Germany is currently prepared to be cut off from Russian oil supplies. Habeck has emphasised that the storage facilities at the Schwedt and Leuna refineries, which still process Russian crude oil (stocks are to last for 20 days) are full and that it is possible to replenish them from the Federal Reserve. Berlin is also counting on the rapid launch of imports from alternative sources. However, the costs of a quick suspension of supplies would be high – especially in the eastern federal states. It is estimated that this would force both refineries there to reduce production (to about 75%), and the shortages in fuel would have to be compensated by supplies from other regions of Germany, which will entail logistical problems (especially on the railways). This scenario also assumes a clear increase in fuel prices at filling stations in the eastern part of the country, and local shortages are also likely.
- The green transformation of the PCK refinery has begun, which is an important aspect of the ongoing changes, though this issue is in the background of the public debate. Both the federal authorities and the Brandenburg government want to use the situation to complement the refinery's business model with the production of low-emission synthetic fuels, produced on the basis of biofuels or green hydrogen. The "Fund for the Future" is to include funds allocated for co-financing investments in a system that will enable the production of synthetic aviation fuel. Minister President Woidke stated that Brandenburg, considering the favourable conditions for generating energy from renewable sources (especially from wind farms), is destined to become a showcase hydrogen cluster, and the PCK refinery is destined to implement new green technologies. In political terms, these actions fit in with the policy to promote climate neutrality, which has been pursued by Berlin. They are also meant to meet the expectations of voters, especially the electorate of the Green Party and the SPD. German industry is also thought to be in favour of them since it believes that hydrogen technologies have a great future and that they will become the foundation of a promising development model (see [Wodór – nadzieja niemieckiej polityki klimatycznej i przemysłowej](#)).

Map. Oil transport infrastructure and refineries in Germany



Source: German Mineral Oil Industry Association (formerly MWV, from 2021 known as En2X).