

I Smell Some Rats

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Some of Russia's largest and fattest rats are starting to flee the country's sinking ship. Take, for example, Rosneft, which signed an agreement in January to exchange shares with BP, or Novatek, which sold 12 percent of its shares to the French company Total in February.

Given the individuals involved in these transactions and the fact that Prime Minister Vladimir Putin was directly involved in both, the agreements look like an attempt by Russia's ruling elite to create a financial cushion in the event that the Libyan or Egyptian scenario plays out in Russia.

The BP-Rosneft stock swap was initiated by Deputy Prime Minister Igor Sechin. According to BP CEO Robert Dudley, Sechin is considered to be Putin's direct representative in the oil business, effectively making him the most powerful person in Russia after Putin.

Under the agreement, 5 percent of BP shares will be exchanged for about 9.5 percent of Rosneft shares, with the overall transaction valued at \$7.8 billion.

This stands in stark contrast to the times when Shell, Mitsui and Mitsubishi were stripped of their controlling shares of the Sakhalin-2 project in 2006, and Dudley, then head of TNK-BP,

was forced to leave Russia after his work visa was not extended in 2008.

The Novatek agreement was signed on March 3 in Novo-Ogaryovo with Putin personally blessing the deal. According to official reports, Total will acquire 12 percent of Novatek, the second-largest gas producer in Russia, from its CEO and largest shareholder, Leonid Mikhelson, and co-owner Gennady Timchenko.

The huge figures involved in this deal are especially noteworthy. In fact, on Dec. 20, Gazprom sold Gazprombank a 9.4 percent stake in Novatek for 57.5 billion rubles (\$2 billion). Only one day earlier, that stake was valued on the MICEX at 87 billion rubles, and it is now worth 101.3 billion rubles. The very next day, Dec. 21, Gazprombank resold those shares to Novatek. Now, with Putin looking on, Timchenko and Mikhelson resold several major share packets to Total for 30 percent more money than Gazprom received for the same shares.

Gazprom is run by Putin's friend Alexei Miller, Gazprombank is owned by Putin's friend Yury Kovalchuk, and yet another friend of Putin's, Timchenko, is co-owner of Novatek. What we have is a complex, multistaged financial transaction in which individuals and companies with close ties to Putin flip billions of dollars worth of stocks and securities in murky,

under-the-table schemes.

It seems that both the Rosneft-BP and Total-Novatek deals are designed to sell assets just in case Russia is next in line for a revolution.

It's one thing when the rats run off the ship — even huge, fat ones. But when the captain and first mate are also bailing out — or at least calling over the captain of a foreign ship and starting to off-load all of their accumulated wealth — that is a sign the situation has indeed become very serious.

I predict that United Russia will easily secure 70 percent of the vote in the December State Duma elections. But I'm not sure the next Duma will be able to complete its term. It may very well be swept away by revolution.

Yulia Latynina hosts a talk show on Ekho Moskvyy radio.

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