

# Rosneft Gets Final Say in BP Tie-Up

By [Howard Amos](#)

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Rosneft finds itself in a peculiar position this week after an international arbitration tribunal decided to give it the last word on a \$16 billion tie-up — not with BP as it had hoped but rather with TNK-BP, a smaller rival that it has expressly not wanted to work with.

The tribunal ruled Friday that TNK-BP must take BP's place in the deal and that, if this happens, a share swap through which BP would exchange 5 percent of its equity for a 10 percent stake in Rosneft can go ahead.

Several options are now open to Rosneft, and hard bargaining promises to go on behind the scenes in the run-up to a May 16 deadline for the deal's conclusion.

"The ball's in Rosneft's court," said Valery Nesterov, an oil and gas analyst at Troika Dialog.

A Rosneft spokesman declined to comment Monday, citing the public holiday.

The ruling ends nearly four months of legal wrangling initiated by BP's oligarch partners

in the TNK-BP 50-50 joint venture who feared marginalization by BP's Arctic exploration tie-up with Rosneft.

Alfa, Access and Renova Group, or AAR, which represents the interests of oligarchs Mikhail Fridman, Len Blavatnik and Viktor Vekselberg, successfully argued to the London-based arbitration tribunal operating under Swedish law that a BP deal with Rosneft that excluded TNK-BP would prove detrimental to TNK-BP's long-term prospects.

AAR chief executive Stan Polovets welcomed the tribunal's decision. "We see the Arctic transaction with Rosneft as a great opportunity for TNK-BP and for Russia which we would like to succeed," he said in a statement Friday.

But Rosneft has repeatedly expressed an unwillingness to enter any alliance with TNK-BP. In a statement released March 11, the company said, "TNK-BP was never considered as a potential participant in the alliance because of the absence of the necessary competencies."

Prime Minister Vladimir Putin and Deputy Prime Minister Igor Sechin have both expressed surprise by AAR's legal drive to leverage TNK-BP's inclusion into the deal.

The tribunal also placed new conditions on the share swap. The ruling stipulates that any shares exchanged must be "held for investment purposes only ... with voting rights exercised by independent trustees," according to a joint statement released by BP and AAR.

In addition, neither company would be permitted representatives on the other's board.

Sechin, the former chairman of Rosneft's board of directors, said in February that he would like Rosneft to gain a seat on BP's board as a result of the equity exchange.

One outcome now is that Rosneft decides that the original agreement has been watered down too much and allows it to collapse. But this is unlikely, UralSib chief strategist Chris Weafer said in a research note.

The deal "is too important for Russia's strategic energy development plan and for Rosneft's ambitious future development as a global oil player," Weafer said.

Another option is that AAR could be bought out. The group rarely misses an opportunity to emphasize TNK-BP's profitability, and Polovets described TNK-BP on Friday as a "fantastic business with a bright future."

The Financial Times reported last month that AAR rejected a \$27 billion offer for its half of TNK-BP. Unconfirmed media reports have suggested that AAR might be demanding as much as \$40 billion to walk away.

In a third scenario, Rosneft might accept the ruling of the arbitration tribunal as it stands. The share swap was always the most significant part of the deal for Rosneft, and although TNK-BP might not be an ideal partner, the Arctic know-how, experts and technology will come from BP in any case, said Nesterov from Troika Dialog.

Such an outcome would be "more uncomfortable for BP than Rosneft," he said.

BP chief executive Robert Dudley had hoped the Rosneft tie-up would revive his company's fortunes after the Gulf of Mexico oil disaster. But several of BP's major shareholders have expressed unease over relinquishing the Arctic opportunity to TNK-BP and proceeding solely with the share swap.

Nesterov noted that the crude from any realization of the deal would not start flowing for another seven to 10 years and that international oil majors were already lining up to work in the area.

Rosneft might, therefore, settle for the share swap now and decide definitively about partners "when the Stockholm arbitration court is a distant memory," he said.

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