

# How the Rosneft Deal Went Down

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Rosneft will buy BP's 50 percent stake in TNK-BP for \$17 billion plus 13 percent of Rosneft, and will purchase the AAR consortium's 50 percent stake for \$28 billion.

This deal brings the plundering of Yukos to full circle. After all, Rosneft received most of Yukos after its CEO, Mikhail Khodorkovsky, was arrested and the company was forced into bankruptcy. In addition, the deal marks the nearly complete nationalization of Russia's oil industry and signals a radical change in the rules of the game. It also boosts the status of Rosneft chief Igor Sechin, a man who could rightfully be considered President Vladimir Putin's financial and administrative alter ego.

Several years ago, the BP management, which has always been frustrated at being denied control over TNK-BP financial flows, began making frequent visits to Sechin. The initiative for this deal came from BP. The company wanted to end its reliance on AAR and switch over to a new patron, Sechin. In return, BP was prepared to offer the Kremlin the very thing it wanted most of all: a way to legalize its plundering of Yukos.

The deal was then approved at the highest levels, but Alfa Group, one of the three members of AAR, blocked it — a move that would hardly have been possible without Putin's approval.

As far as I know, Alfa Group directors honestly explained to Putin that the agreement between BP and Sechin was a breach of contract. Putin agreed with their argument.

But there was another, weighty factor involved here, and that was the government's option of forcing BP to buy out Alfa Group's stake in TNK-BP. Since BP would have had to pay in shares along with cash, the deal would have given the Russian side even more leverage in the foreign company.

In fact, BP had agreed to buy out Alfa Group's stake. Both sides had even reached an agreement for a deal that sources say would have exceeded the current deal's \$28 billion price tag, but the agreement reportedly fell through because of opposition from Sechin.

The main intrigue of the 15 months since that deal collapsed and the current agreement was reached was the relationship between Alfa Group and Sechin. They were as tight-lipped and isolated from outside observers as high-level power struggles once were within the Politburo. And the stakes here were just as high.

Rumors flew about what was happening. Sechin's detractors are numerous, since he is in conflict with almost every influential financial and political player on Putin's team, from Prime Minister Dmitry Medvedev to Gazprom CEO Alexei Miller and Gunvor co-owner Gennady Timchenko. They reported all sorts of nonsense, even claiming at one point that Sechin had been in a fistfight with Alfa Bank president Pyotr Aven. Alfa claimed it had achieved friendship and peace.

I think the truth is somewhere in the middle. Both sides are too pragmatic to allow personal feelings to influence a deal in which billions of dollars are at stake.

Alfa Group excluded BP from TNK-BP's management and, in what was essentially a hostile takeover bid, offered the British \$7 billion for a 25 percent stake in TNK-BP. Sechin played the role of a white knight, offering to step in and pay BP far more generously than Alfa.

Alfa Group had probably not intended to sell its stake, but it was the best option for both sides when Sechin moved in. In the end, the Rosneft deal is a reminder that Putin is the most important figure in Russian business.

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