

Glencore Turns Setbacks into Oil Supremacy

By [The Moscow Times](#)

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RussNeft is to pay \$1 billion to Glencore by 2017 under restructured debt.

The world's largest trading house, Glencore, is quickly switching from an outsider into an oil-trade leader by mending fences in just one year with Rosneft, the national energy champion.

Through a \$10 billion oil funding deal with state-controlled Rosneft, the Switzerland-based firm, which has been big in Russian coal, grain and aluminium for two decades, is extending its grip to a sector where it played second fiddle to Vitol and Royal Dutch Shell.

"It shouldn't come as a surprise because Russia is one of the world's largest commodity producers and Glencore is the world's largest commodities trader," a high-level source close to the situation said.

However, the speed of Glencore's expansion in Russian oil exports has been extraordinary.

Just a few years ago, Glencore's biggest investment in Russian oil, through minority stakes

in mid-sized firm RussNeft, seemed at risk of expropriation, while its attempts to cooperate with Rosneft had long been unsuccessful.

Glencore was the only major trader or oil company not allowed to participate in Rosneft's huge oil export tenders, unlike arch-rival Vitol and oil majors Shell and BP.

Russian industry sources said the failure was partly due to tensions between Rosneft chairman Igor Sechin, a close ally of President Vladimir Putin, and tycoon Oleg Deripaska, who has links to Glencore through the aluminium trade.

Deripaska controls aluminium giant RusAl, in which Glencore has a minority stake.

All this changed when Sechin left the government in May to take over as chief executive of Rosneft, a job requiring deep involvement in operations, unlike his previous role as chairman.

Sechin began a new drive toward consolidation of Russia's oil industry by steering a \$55 billion acquisition of rival TNK-BP from oil major BP and a group of Soviet-born billionaires.

At that point, money became paramount.

"Rosneft was looking to finance the deal, and Glencore has good relations with a large number of banks," the high-level source said. "The company was prepared to step up to the plate and quickly arrange pre-financing for Rosneft,"

Rivals In Tandem

Rosneft said in December that Glencore and Vitol would raise \$10 billion on its behalf from banks and take 67 million tons of Rosneft's oil exports for the next five years in return.

The arrangement will allow Rosneft to lighten the burden on its balance sheet, as the money would be borrowed by the traders. The traders win the right to market 280,000 barrels per day of Rosneft's exports.

These volumes will amount to about 10 percent of seaborne exports from Russia, the world's largest oil producer.

The loan is unusual because Glencore and Vitol will borrow together, effectively working in tandem for the first time.

Industry and banking sources said the deal organizers did this to avoid confusing the banks.

The split will be far from equal, however, as Glencore will line up much more backing from banks than that mustered by Vitol, which is co-owned by British businessman Ian Taylor, who built the firm into the world's largest oil trader.

Sources said that Glencore, co-owned by South African Ivan Glasenberg, will market 70 percent of the volumes under the Rosneft deal, while Vitol will get 30 percent.

That marks a change from previous years, when Vitol, along with Shell and oil trader Gunvor, dominated the landscape.

"A year ago, it would all have seemed impossible," a trader with a rival said. "But having seen Glencore's rise over the past year, I'm now pretty confident they will be around and play big for many years."

The Rosneft deal alone would represent just less than 10 percent of Glencore's global oil portfolio of 2.5 million bpd.

Russian Oil Appeal To Rise

The rise in Russian oil trading has confirmed Glencore as one of the industry's most resilient and combative companies.

Five years ago, its fortunes in Russia looked shaky after its investment in RussNeft was jeopardized when the oil company's founder, Mikhail Gutseriyev, had a falling-out with the Kremlin.

Gutseriyev returned from exile, but Glencore is still owed more than \$1 billion by RussNeft, a sum it will not recoup before 2017 under a restructuring deal.

Far from being deterred, Glencore sought a bigger role in Russia.

The turning point came in early 2012, when Russia opened the new Baltic port of Ust-Luga, near St. Petersburg, after multiple delays, which made many other traders reluctant to rely on crude from the terminal.

Glencore committed to large volumes from Ust-Luga, including oil from Rosneft, despite the risk of delays.

"Since then, they've never looked back and have only kept increasing volumes," a Rosneft source said.

At one point in October, Glencore was marketing more than 20 percent of the volumes Russia exported from its Baltic ports, its biggest export route.

Traders at rivals say they do not understand how Glencore makes money on those exports, as it pays premiums to Rosneft of as much as 70 cents per barrel, thought to be too much to recoup.

Glencore declined to comment on its trading strategy, but it is clear the company is as bullish as ever on Russian oil.

Its boss, Glasenberg, said recently that Russia's government was likely to incentivize production in more inaccessible regions.

"As production from less accessible areas increases, so too will Russian oil's attractiveness as an investment proposition," he said.

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