Petro-Authoritarianism in Russia

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Overview

Increasing state control of the Russian oil & gas sector

• History and causes
• Cases
• Implications
External/geopolitical - GAS

• The ‘Natural Monopoly’ restructuring template
  – applied to electricity, even the railways…
• …but not Gazprom

Putin, February 2003:
*We have lost so much…at least we still have Gazprom*

• 2006 – Gazprom export monopoly becomes statutory
Domestic political – OIL

- The oligarchs and the ‘privatisation of the state’
- The ‘historic compromise’ of 2000…
- …breaks down in 2003: the Yukos Affair

Now, exiting oligarchs must ‘put’ to the state:
2005 - Sibneft 2005
2007 - Russian partners of TNK-BP?
Restricting foreign players

Draft new Subsoil law
- Cash auctions to replace tenders? No longer
- No foreign control of ‘strategic’ deposits

Definition of ‘strategic’
- 2005: 1bn bbl, 1tcm
- 2006: 500mn bbl, 50bcm
  - = 10 oil fields, 28 gas fields (cf. John Browne meeting with Putin/Shuvalov, April 2005)

PSAs perceived as foreign hoodwink
History and causes

Restricting domestic private-sector players

• Definition of ‘foreign’: LUKoil, TNK-BP

• Jan 2007 – (tbc) Continental shelf deposits (Barents Sea, Sea of Okhotsk) to be divided between Gazprom and Rosneft

• Jan 2007 – Gazprom wins court action against FAS on right to make further domestic acquisitions
July 2005
• Shell (Sakhalin Energy) and Gazprom about to sign asset swap (Sakhalin-2 vs Zapolyarnoye deep gas)...
• ...when Sakhalin Energy announces $10bn cost overrun

September 2006
• Sakhalin-2 environmental permits placed under threat

December 2006
• Gazprom cash purchase of 50%+1 share for $7.45bn
• Foreign partners only to invest $3.6bn to offset cost overrun

April 2007
• State dividend clawback from 2010
• Timan-Pechora oil project
• PSA, with Russian government as the direct counterparty to foreign operators Total (lead) & Hydro
• An acrimonious history
  – Tax litigation
  – Government rejects some cost recovery
• Signals that the project will not be closed…
  – …but Rosneft could play the role of Gazprom in Sakhalin-2
• Massive offshore Barents Sea gas project initially targeted at US LNG market
• Negotiations with potential foreign partners…
  – …short-list of five announced in early 2006 for 49% of the project
• September 2006 – Gazprom announces:
  – No foreign participation in the project
  – No LNG component, gas will go via pipeline to Europe instead
Cases - Kovykta

- Long-running gas development project to deliver gas from East Siberia to China
- TNK-BP shareholders leading the $17bn project to produce 34bcma for export and domestic market
- Gazprom spokes in the wheels:
  - ‘should be a domestic project’
  - ‘too much helium’
  - ‘no interest in joining for early development’
- Outlook
  - Soviet-style licence trap?
  - Or Sakhalin 2-style cash sale to Gazprom?
Implications

Power, rent-seeking
State assets as bargaining chips (Nord Stream, now Ukraine?)
Reduced competition, transparency, efficiency…
…but PERSPECTIVE needed

Crude oil output since 1999, % yoy change

Source: OPEC, Rosstat