Petro-Authoritarianism in Russia

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Overview

Increasing state control of the Russian oil & gas sector

- History and causes
- Cases
- Implications

History and causes

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**

History and causes

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?

History and causes

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

Cases – Sakhalin-2

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

Kharyaga

- **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

Cases - Shtokman

- **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

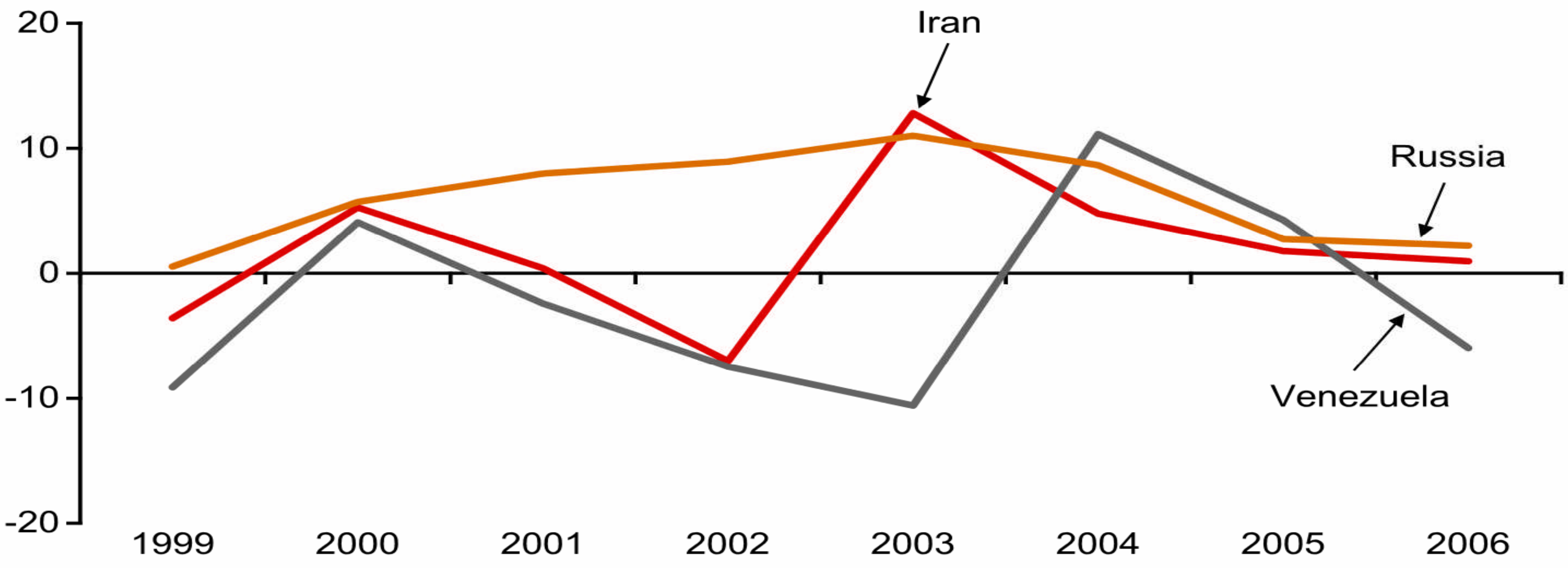
Power, rent-seeking

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