

Russian oil giant Rosneft sells large stake to Western companies

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On December 7, it was announced that Russian oil giant Rosneft had closed a deal for the sale of 19.5 percent of its shares to the Swiss trading company Glencore and the Qatar state fund known as the Qatar Investment Authority (QIA). Each of these entities will obtain a 50 percent stake in a consortium that is acquiring the shares. The cost of the deal is about \$11 billion.

In December of 2014, Russian Prime Minister Dmitry Medvedev signed a resolution releasing Rosneft shares for privatization. However, over the ensuing two years, leading Kremlin bureaucrats were unable to reach agreement among themselves on the transaction.

The bulk of the oil company Bashneft, recently purchased by Rosneft, had been included in the package to be privatized. The deal for the purchase of the Bashneft shares by Rosneft led to the arrest of Russian Economic Development Minister Aleksey Ulyukayev, who has been accused of extorting a \$2 million bribe.

Before the deal, slightly less than 70 percent of Rosneft shares had belonged to the state corporation Rosneftegaz. BP Russian Investments Limited, which was created in 1990 to participate in the fire sale purchase of Soviet industrial state assets and is connected to the UK company British Petroleum, owns nearly 20 percent of the company's shares. The other 10 percent of shares are in free circulation. Nevertheless, the Kremlin will continue to hold a controlling interest in Rosneft after the recent share deal.

Rosneft was formed in 1991 as a state enterprise on the basis of the USSR Ministry of Oil and Gas, which had been dissolved. The expectation had been that it would be privatized gradually.

Rosneft's weight grew significantly in the 2000s after the company acquired the Yukos oil company of oligarch Mikhail Khodorkovsky, who had been sent to prison for 10 years as a result of a political conflict with Russian President Vladimir Putin. At present, Rosneft's share in

Russian oil production amounts to over 40 percent, which makes the company the largest oil-producing firm in the country. Some 250,000 people work for Rosneft.

Rosneft's CEO is Igor Sechin, a very close associate of President Putin. Sechin's income in 2015 was estimated by *Forbes* magazine at \$17.5 million. He is considered to be one of the most influential people in the country, after Putin. This influence is seen in his ability to orchestrate the judicial prosecution of media networks that oppose him.

In August, Sechin sued the newspaper *Novaya Gazeta*, which is associated with pro-Western liberal forces. On July 31, it published an article in which investigations editor Roman Anin claimed that Sechin owned a giant yacht worth at least \$100 million.

He also launched a lawsuit against the newspaper *Vedomosti*, run by Russian-Israeli liberal writer Demian Kudryavtsev, over its publication of an article on Sechin's construction of a "palace" in the Moscow suburb of Barvikha.

He won both cases. The court ordered the newspapers to remove the articles from their web sites and publish a refutation of them.

Leading Western print media have highly rated the deal to sell the Rosneft shares, with the British *Financial Times* calling it a "triumph for President Vladimir Putin." The *Guardian* noted that the news of the deal was a "surprise to markets."

Forbes wrote: "Sechin had said earlier in the day that Chinese and Kazakhstan bidders were the most likely to gain shares of the company, but Glencore and Qatar's sovereign wealth fund came out of nowhere to outbid them."

According to the *Daily Telegraph*, Glencore and the Qatar sovereign wealth fund became "the first international investors to take a stake in Russia's largest crude company since the country's economy was

pummelled by international sanctions over the annexation of Crimea.”

Glencore is known for collaborating with countries that have fallen into disfavour with the West. Besides Russia, this has included Iran, Libya, Cuba and others. In recent years, Glencore sealed a number of deals with Russian companies for the production of crude oil. It also obtained stakes in aluminium producer Rusal (8.75 percent) and subsidiary subdivisions of the oil company Russneft.

In its turn, in August, the Qatar fund QIA secured an agreement for the acquisition of 25 percent of Pulkovo Airport in St. Petersburg. Qatar, which maintains close relations with the United States, and QIA, in particular, have on multiple occasions been accused of financing the Islamic State.

The Russian government is justifying the partial privatization of Rosneft’s state assets as a necessary measure to replenish the state budget. However, the oil company itself faces an acute problem in repaying its debts. The news agency *RIA Novosti* reported on June 8 that Rosneft had a net debt of \$23.9 billion. The company’s enormous debt is bound up with its purchase of the Russian oil corporation TNK-BP in March of 2013.

In connection with this debt, Sechin petitioned the government for assistance in 2014, complaining of the company’s losses from sanctions imposed by the West against it. That year, the decision was made to prepare part of Rosneft for privatization.

On December 9, the State Duma approved Russia’s budget for 2017-2019. A 17 percent budget deficit, in the amount of \$44 billion, is expected in 2017.

Deutsche Welle reported: “The plan is to finance this debt with funds from the Reserve Fund, which is expected to be depleted next year, as well as from the National Wealth Fund, which will have 4.2 trillion rubles [\$68 billion] by the end of 2017.” Under the adopted budget, spending on health in 2017 will be reduced by nearly one quarter. The budget was calculated with the assumption that oil will cost \$40 per barrel and inflation will not exceed 4 percent for the three years.

The proportion of income from raw materials in the Russian federal budget is very high. According to the first deputy chairman of the State Duma Committee on Economic Policy, Vladimir Gutenyov, “oil prices, as previously, comprise nearly 40 percent of the budget” of the country. Low oil prices on world markets are one of the most important factors in the downturn of the Russian economy.

Meanwhile, deindustrialization in Russia continues.

According to a recent report of the Higher School of Economics, during the world economic crisis that first broke out in 2008, Russian manufacturing production has fallen by 7.2 percent.

“The physical resources of the Russian economy—infrastructure, technologies and equipment—have become obsolete. Major funds have deteriorated by over 50 percent, and there is no money in the budget for sufficient modernization,” Tatiana Golikova, head of the Accounts Chamber of Russia, announced in November.

Under conditions of Russia’s further descent into economic crisis, the Kremlin is compelled to sell off state property partially to Western investors as it attempts to defend the interests of the Russian oligarchy, which enriched itself from the restoration of capitalism by the Stalinist bureaucracy in the 1990s. This is an expression of the fact that, despite the Kremlin’s sabre-rattling and appeals to national chauvinism, the Russian elite is a weak and subordinate class, completely dependent on the world economy and the production of raw materials.

It is also possible that following Donald Trump’s victory in the United States presidential election, Putin, by selling the Rosneft shares, decided to make a sort of advance payment to the West in the hope of attaining some kind of compromise with the leading imperialist powers, primarily the US itself.

Nevertheless, the US and the European Union continue to exert tremendous economic, military and political pressure on Russia with the aim of establishing in the country a pro-Western, semi-colonial regime. Russia’s ruling circles are at an impasse in the face of this imperialist pressure, the intensifying socioeconomic crisis, and acute internal conflict.



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