

# Kremlin Buys Back Power

By Martin Walker

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**WASHINGTON** (UPI) -- Just nine years ago, the Russian state sold off half of its most-productive Siberian oil operation for a paltry \$100 million, a fire-sale price because President Boris Yeltsin had to reward Russia's new capitalist tycoons for the campaign funds and media time he so desperately needed to get re-elected.

On Wednesday in Moscow, the state bought it back for \$13 billion more than Yeltsin's Russia had received. The state-owned Gazprom agreed to pay \$13.1 billion for the 72.7 percent of Sibneft owned by Roman Abramovitch, the soccer-loving Russian tycoon who lives in Britain and also owns London's Chelsea Football club.

For Russia, this was the biggest takeover deal in its history. For Abramovitch, it may have been the biggest return on investment of all time -- his precise profit is not clear, because mystery still shrouds the price he paid to the exiled tycoon Boris Berezovsky, the man who bought the core of what became the Sibneft group and the man who orchestrated Yeltsin's re-election.

But the difference between the \$100 million of 1996 and this week's \$13.1 billion price reflects not only the absurdly low price of the original sale in 1996, but also the soaring current price of oil. Above all, from the

Kremlin's point of view, it demonstrates the success of Yeltsin's successor, President Vladimir Putin, in stabilizing Russia's economy, its currency and its body politic. Russian energy assets, and its industrial and managerial ability to exploit them, all look much more reliable in Putin's Russia than they ever did in Yeltsin's day.

And for Putin, it represented a decisive strategic achievement, the moment when the plundered Russian state was able fully to reassert its authority over the country's richest natural assets, its energy supplies. State-owned Gazprom controls Russia's natural gas resources and boasts the world's largest gas reserves; with the Sibneft deal, the Russian state now owns a third of the oil currently being pumped from Russian soil, and a sizeable share of its refining capacity. Adding the oil and gas together, and throwing in the state-owned Rosneft, the Kremlin now owns 57.4 percent of Russian's energy sector, according to figures released by the Moscow-based Novosti agency.

Last year, Russia's was the world's second-leading oil producer, with an average 9.3 million barrels of oil a day, close behind Saudi Arabia's 10.6 million barrels a day. But there is plenty more where that came from. Sibneft lists its own oil reserves at 6 billion. On paper, and without allowing for extraction costs and assuming it could all be recovered and sold, these reserves are worth around \$350 billion at current prices. In reality, even Exxon's reserves are valued by the markets at a much more modest \$20 a barrel, and Siberian oil assets tend to get a valuation of less than half that. Even so, for Abramovitch and the other Sibneft shareholders, Sibneft has been a license to print money -- the company paid more than over \$2 billion in dividends last year.

Moreover, Sibneft pumped just a fraction less than a million barrels a day on average last year. Given Russian extraction costs, that means Sibneft should bring in the

Kremlin something between \$10 billion and \$12 billion a year, which means the purchase price should be recovered by the end of next year -- if oil prices stay where they are. Although there is some grumbling in Moscow that Gazprom is overpaying, the Russian state is regaining a strategic asset and building a mega-sized energy group that can compete directly with the giants like Exxon, Shell and BP.

This suggests that Alexei Miller, Putin's aide back in St. Petersburg who now runs Gazprom, is on track to deliver on his promise in June to shareholders to turn Gazprom into the world's top energy supplier, a dominant force in oil and gas, in refining and in electricity. Miller's main shareholder, of course, is now the Russian state. Back in June, the Kremlin paid \$6 billion to increase its stake in Gazprom from 38 percent to 51 percent, which implied a total price tag for Gazprom of some \$42 billion. That is far, far less than most Western energy market analysts would value the company, but then market rules hardly apply when foreigners are not allowed to buy Gazprom shares on the Russian market, but may only buy U.S.-based depositary receipts. And foreign participation in Gazprom is limited to a maximum 20 percent.

Still, the fact the Russian state is paying a serious market price is of real symbolic importance. Putin's Kremlin has not always played by the rules and simply bought its way to control of Russian energy supplies. But the Putin administration has evidently now judged there was a price to pay for a raw display of state power, after what the European Parliament condemned as the politically inspired and cynical looting of the Yukos oil empire with the arrest of the tycoon Mikhail Khodorkovsky and the demand for \$28 billions in back taxes.

Abramovitch has not been similarly expropriated. He has been bought out, and Sibneft is changing hands in the kind of way that Western markets and stock exchanges understand. It still signals the end of an era for Russian

capitalism, the passing of the oligarchs, but in a far-less worrying way for international investors and ambitious young Russian entrepreneurs. The world's biggest single agglomeration of energy power is back in the hands of the Kremlin, but at least they are now rich enough, self-confident enough, and thoughtful enough to see that it makes sense in the long run to pay for control of Russia's assets rather than just steal them back.

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