



## ExxonMobil and Russia's Rosneft: Unlikely Partners?

*Anders Åslund says that Russia needs help from the West to explore oil in the Arctic, and that the US "reset" of ties with Moscow paved the way for the deal.*

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Steve Weisman: The surprise announcement of a deal between ExxonMobil and Rosneft, the Russian oil company, has raised questions and concerns. Anders Åslund, senior fellow at the Peterson Institute, is here. Anders, why was it a surprise and has Russia turned to the West?

Anders Åslund: There are two Russian companies, Rosneft and GazProm, that have a monopoly on these offshore fields in Russia, and neither has the technical skills to develop them. Essentially there are about half a dozen oil majors that could build these for them. The oil service companies, Schlumberger and Halliburton, which do a lot of work in Russia, can't build this deep sea drilling under very special circumstances in the Arctic sea.

This was essentially [a question of] when will the Russians come to an agreement between one of the two top companies and one of the six oil majors. We thought we had the answer several months ago when there was an agreement between the BP and Rosneft. But that fell apart very much because BP had not sorted out their relations with the other private Russian partners. You expect another company to come in and it happened to be ExxonMobil.

What Exxon has to its great advantage, apart from being very big, the Russians like big partners, is that they have had a very successful development in Sakhalin. And indeed the partner since 1996 there has been Rosneft. So they have worked with Rosneft before. They have developed a complicated oil field in Russia before.

Steve Weisman: What do you suspect the negotiation was like and did Exxon get a good deal from the Russians?

Anders Åslund: We can compare with the BP deal. BP would have done a shares swap: over 5 percent of its shares against 9.4 percent of Rosneft shares, while Exxon is only giving Rosneft share of six of their projects. So you can say in this way Rosneft got less than BP offered, and it was also less of a deeper integration.

Steve Weisman: If Exxon had somehow agreed to the same kind of deal as BP, in other words swapping shares, that might have raised hackles in Congress, just like the Chinese attempt to take over Unocal.

Anders Åslund: Indeed. And it was one Congressman who asked that the BP/Rosneft deal not be approved.

Steve Weisman: Oh.

Anders Åslund: And that it should be stopped for security reasons. I think there is much less reason to be concerned about the Exxon deal with Rosneft, because it is much more contained.

Steve Weisman: The deal was announced on August 30. I don't know if there has been any adverse political reaction in the United States. Is there any reason for Americans to be concerned that the Russians have access to American resources?

Anders Åslund: I don't think so. And you can also see the previous reactions about there being very little reaction against Russian business in the United States, unlike as you mentioned the Chinese business activities here. Say, for example, Lukoil, which owns perhaps 2000 gas stations.

Steve Weisman: You see them all over the East Coast.

Anders Åslund: And previously Norilsk Nickel had a big mine in the north of the US, and they've sold it now. And I guess that the third and fourth biggest steel companies in the United States now are Severstal and Evraz, and you don't hear about this at all. So if anything, it's striking how little reaction there is against Russian business, and how strong the reaction is against the Chinese.

Steve Weisman: What about Western confidence in the reliability of doing business with Russia?

Anders Åslund: You can say that there had to be a deal between some big Western company and one of the big Russian companies. It's amazing that it has taken this long for a deal to take place.

Steve Weisman: Why did it take so long -- distrust of Russia?

Anders Åslund: I think rather that you should say that the changeability of the Russian investment conditions. Here we had BP getting the blessing of the Prime Minister, [Vladimir] Putin, who decides these things. And then for reasons that are not entirely clear, the big Russian oligarchy opposed it and managed to have Putin change his mind. So this is one person who can't make up his mind.

Steve Weisman: You mean?

Anders Åslund: Vladimir Putin, the Prime Minister. And of course we don't know if he will stick to this. He was very much there. He looked very happy and clearly gave this deal a blessing. Putin's blessing is a pre-condition for a major oil and gas deal in Russia. But it's not a sufficient condition to say that the deal will stick.

Steve Weisman: You think there is a chance it could fall through even now?

Anders Åslund: Yes. But given that ExxonMobil has 15 years' experience of working with Rosneft, they have probably thought this through very well.

Steve Weisman: Americans, and the Obama administration, have been concerned with the fickleness of the business climate. Should this go through irrespective?

Anders Åslund: If I were in President Obama's place I would say that this could not have happened if it hadn't of been for my recent policy towards Russia. It's thanks to "reset" that this has become possible. Otherwise the Russians would probably have chosen Shell or Total after having become disillusioned with BP.

Steve Weisman: Thank you, Anders.

Anders Åslund: Thank you.

