



## Sechin's Empire: The Growing Importance of Rosneft in Russian Politics

Bartosz Bielszczuk

This September, the Russian government supported a request from Rosneft, Russia's biggest oil company, to allow it to export natural gas via the Gazprom-owned Nord Stream 2 (NS2), which is not yet operational. President Vladimir Putin will make the ultimate decision. However, the EU law requiring access to NS2 for shippers other than Gazprom means that it is possible that the Kremlin will try to allow such limited competition. In practice, it would mean that NS2 is used by only two companies controlled by the Kremlin, which would not comport to EU law. Such a scenario, however, would signal the growing influence of Rosneft's head, Igor Sechin, on the Russian and international political scenes.

**Russia Contemplating Controlled Competition?** Gazprom owns the Russian gas transmission system and has for years enjoyed a monopoly on natural gas exports. Its competitors, Rosneft and Novatek, both also closely connected to the Russian ruling elite, successfully lobbied for changes in the law to allow them to export liquefied natural gas (LNG), but Gazprom retained its monopoly on exports via pipelines. Opening up the latter option is crucial for Gazprom's competitors because they then could easily sell natural gas on foreign markets where prices are higher than on the internal market. Gaining access to the pipelines means transit via existing infrastructure, with no need for costly investments—for example, the total costs of the construction of the Arctic LNG 2 terminal allowing Novatek to export LNG amounted to about \$27 billion.

So far, all the initiatives of liberal-minded ministers to dismantle Gazprom's pipeline monopoly and reform Russia's gas market have been futile, and in the cases related to Gazprom, Putin has often intervened himself (the company is headed by Putin's friend from St. Petersburg, Alexey Miller). Rosneft, headed by Sechin, who is considered one of the most influential people in Russia after Putin himself, has been trying to get access to the pipelines for years. Sechin's company extracts around 180 million tonnes of oil annually, making it by far Russia's biggest oil producer (Lukoil, the second-biggest

concern produces 73 million tonnes), and it is the third-biggest natural gas producer with around 40 bcm annually, which is far smaller, though, than Gazprom's 430 bcm. In the past, Rosneft tried to get access to Nord Stream 1 and other pipelines to supply gas to the British champion BP, and this year requested access to NS2. Sechin's proposed scheme in which Gazprom would broker exports via NS2 would not formally end the latter's monopoly. Then, Rosneft's use of NS2 could be depicted by Russia as meeting the EU's legal requirements for competition to an extent. For Gazprom, such a move would be a step away from its monopoly position, so the company opposes Sechin's plans.

**The New Context of Rosneft's Attempts.** So far, Rosneft's effort to gain access have been futile, but some factors in play today might work to the company's advantage. First of all, Sechin is not proposing to formally abandon Gazprom's monopoly, so his scheme should be easier to accept than legal changes. Moreover, [despite recent high gas demand and record-high prices in Europe, Gazprom has not ensured additional supplies](#), and Sechin argues that Rosneft could help stabilise gas prices in Europe. [Since NS2 is subject to EU law \(which requires, among other things, access for Gazprom's competitors\)](#), this works to Rosneft's advantage. The Russian legal regime protects Gazprom's export monopoly but collides with EU law on this matter. If Rosneft gains even indirect

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access to NS2, the Russian authorities might use it as an argument that it has met the competition rule. By allowing Rosneft to work with Gazprom to supply gas through NS2, it means that this export channel will remain under the Kremlin's control. Changing Russian law to meet EU legal requirements is seen by Russian decision-makers as a sign of weakness, so Sechin's scheme might be an acceptable compromise from their point of view. Rosneft itself argues that allowing it to export at least 10 bcm of gas a year means RUB 210 billion (around \$2.92 billion) in additional budget revenues from taxes, excise fees, and dividends.

**Sechin's Empire.** If Putin accepts Sechin's proposal, it will signal the growing importance of Rosneft, as well as Sechin himself, [an important figure in the siloviki faction of the Russian elite, as well as one of the most influential people in Russia.](#)

Sechin worked for Soviet intelligence and has been a close associate of Putin's since the 1990s when they worked together in St. Petersburg mayor's office. Later, Sechin served as deputy chief of the president's administration then as deputy prime minister. He built up his influence by taking key posts, though not always public, in the power structure, such as the prosecutor's office, as well as through his close personal relations with Putin.

As a member of Russia's ruling elite, he has *de facto* overseen the oil sector. In 2004, he joined Rosneft's management and since 2012, has been CEO of the company, turning it into Russia's biggest oil company. Sechin was behind the repression of Mikhail Khodorkovsky and [after the rival's arrest, Rosneft seized some of Yukos's assets.](#)

When liberal ministers in the government opposed selling off the controlling stake in the oil company Bashneft, which Rosneft wanted to acquire, Sechin personally participated in an FSB sting operation that led to the sentencing of the then-minister of economy, who opposed the scheme, to a penal colony. Sechin also successfully lobbied for decisions beneficial to Rosneft, such as lowering oil transit tariffs or tax breaks.

Putin's personal meetings with the heads of the Russia's biggest companies create opportunities for Sechin to depict Rosneft's initiatives, such as its investments in the Arctic, as within Russia's strategic interests. The Vostok Oil project is one such initiative aimed to increase Russia's oil production by 100 million tonnes by 2030 (current output is above 520 million tonnes) and boost GDP by around 2%. It will

require around \$110 billion in investments—not only in production but also in building settlements, road infrastructure, and airports. Rosneft also owns the Zvezda shipyard, which builds icebreakers and specialised tankers [capable of operating on the Northern Sea Route and which will help Russia gain the advantage of a physical presence in this region.](#)

Sechin's influence extends to Russian foreign policy. In 2014, he was included on the U.S. sanctions list along with the other Russian leaders for their involvement in Russia's aggression against Ukraine. In recent years, he has *de facto* run Russian policy toward Venezuela, including granting loans, financing oil-related investments and, through companies connected to Rosneft, facilitating Venezuela's oil exports—the main revenue source for the country's leaders—to avoid U.S. sanctions.

Rosneft is also interested in [expansion on the EU market, especially in Germany](#) where it owns around 12% of the country's refinery capacity. Allowing it to export gas via NS2 would strengthen the company's role further, increasing Russia's economic footprint in the EU.

**Perspectives.** Considering Sechin's influence and the EU legal requirements for competition in NS2, allowing Rosneft to export gas via this pipeline cannot be ruled out. Russia hopes for concessions from the EU and its member states in this area [\(as well as on the procedure of certification of NS2 operator which must be finished before the pipeline starts exports\)](#), suggesting that without them, gas deliveries to the Union could be insufficient. If this fails, Russia could allow Rosneft access to NS2 and then will depict it as a concession from their side, hoping it will help to avoid EU cap on the export capacity of NS2, [which was the case with the OPAL pipeline.](#)

Allowing Rosneft to use NS2 would create some kind of competition, but it would also remain fully under the Kremlin's control. Apart from gaining access, Rosneft does not plan to export significant amounts of gas, and in any case will not neutralise the threat of Russia using gas exports as a political tool. At the same time, Rosneft's growing interest in the European market could mean it will lobby harder for closer cooperation with the EU, pressing for lifting the sanctions on it or its leaders, something Polish diplomacy must counter. In the NS2 case, Poland should insist that the EU ensure the competition rules and apply them to future pipeline operations. In case of any violations, the European Commission should be involved as well.