

## Making money on the crisis in Russia: the case of Gennady Timchenko

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The economic crisis which has been affecting Russia since autumn 2008 has significantly weakened large Russian companies, the majority of which are controlled by private capital. If it had not been for huge state aid, some of them would have gone bankrupt or would have been taken over by foreign lenders. Against this backdrop only a few companies that have been strengthening their position in the Russian economy stand out. In principle they are owned by the business people believed to have close relations with the Russian authorities. Despite the crisis these owners are taking over assets of strategic importance, mainly in the energy sector. As a result, the importance of selected large companies linked with a section of the ruling elite or, in some cases, representing their private interests has been growing.

The exceptionally speedy expansion of companies controlled by Gennady Timchenko, who has become one of the most influential businessmen in the Russian economy in recent months, is an ideal example of this process. So far Timchenko has been known mainly as a co-owner of Gunvor, the largest trader in Russian crude oil. In the last months he has considerably expanded his business by taking over a series of significant assets in the energy sector. During the economic crisis in Russia nobody else has seen such a substantial increase in their fortune. Timchenko's expansion has been facilitated thanks to the capital accumulated over the previous years. Many things indicate, however, that it would not have been possible without political support from the highest-ranking Russian state officials. The energy sector is considered strategic and therefore remains closed to competition; all decisions about the change in the ownership of particular assets must be approved by the Kremlin. It seems that Timchenko's expansion can also be used to exemplify a broader trend. Recent months have witnessed a process of securing property by a section of the political elite which is using the crisis in order to take over selected assets in their private interests.

### The origins of Timchenko's business

Gennady Timchenko until recently has been known mainly as a co-founder and shareholder of Gunvor. This company, established in 1997, took over control of the export of about 35% of Russian oil within only a few years, thus becoming the world's third largest crude oil trader in terms of sales (83 million tonnes of oil and oil-based products in 2007, with revenues in 2008 reaching approximately USD 70 billion<sup>1</sup>). Gunvor, based in Geneva, is a subsidiary of Gunvor International BV, registered in the Netherlands. Gunvor Internatio-

<sup>1</sup> It would give Gunvor a place at the bottom of the top one hundred world's largest companies in terms of revenue, before – among other companies – Rosneft.

nal BV is in turn owned by EIS Clearwater Advisors Corp. based in the British Virgin Islands, through Gunvor Cyprus Holding Ltd. from Cyprus. According to official information, this company is co-owned by Timchenko, Torbjörn Törnqvist from Sweden and an anonymous Russian businessman. In spite of Gunvor's quickly growing volume of sales and importance Timchenko remains one of the most mysterious Russian business people. It is known that he has been dealing with the sales of oil and oil-based products since the end of the 1980s. In the beginning he worked in a subsidiary of a refinery in Kirishi near St. Petersburg, responsible for the export of its products. Then he was co-owner of a few Russian crude oil traders (i.a. Urals, Kinex). Under Vladimir Putin Gunvor grew from a rather small company into one of the world's major players in the sector of crude oil traders. Now the company has offices all around the world and sells oil also from Africa, Latin America and Asia. As of the end of 2008, in addition to Gunvor, Timchenko controlled a few smaller Russian

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companies, among them: IPP, Surgutex, Waterway Petroleum oil traders; a Trans-oil railway operator and an Estonian company Tarcona specialized in the transport of oil and oil-based products; Clearlake Shipping LTD, one of the world's biggest companies transporting oil in tankers;

5% of shares in Novatek, the largest gas producer in Russia after Gazprom (44 billion m<sup>3</sup> annually); Citco Waren-Handelsgesellschaft, an Austrian trader in the majority of exports of Russian liquefied gas; 9.5% of shares in the Bank Rossiya (its biggest shareholders are considered to be Vladimir Putin's close friends); an insurance company, Alma, based in St. Petersburg. In 2008 Forbes magazine estimated Gennady Timchenko's fortune at USD 2.5 billion. The economic crisis in Russia has opened up opportunities to Timchenko for further expansion and a substantial increase in the ownership of energy assets.

## 2009: Timchenko accelerates the expansion

In the last months of the crisis companies controlled by Timchenko have taken over a few important assets, mainly in sectors new to them (see the structure of assets in the Appendix).

- Gunvor started investing in the infrastructure for the export of energy resources and in March this year took over 100% of shares in a terminal under construction in Ust-Luga (with a capacity of 25 million tonnes a year – an increase to 40 million is planned) and in May it took over 50% of shares in the company building a terminal in Novorossiysk (capacity of 4 million tonnes of fuel oil). The two facilities are situated in key locations for the export of Russian resources and will enable Gunvor to become an important player on the oil products market.
- Volga Resources (VR), an investment fund established by Timchenko and based in Luxembourg, in June this year acquired a 79.6% stake in Stroytransgaz, the second largest construction company in the energy sector. It is one of the companies building the BPS-2 oil pipeline, a strategic project which is intended to contribute to reducing the importance of the Druzba oil pipeline.
- The companies controlled by Timchenko have started taking over assets in the gas sector where previously they have not been operating. Volga Resources in May this year increased to 18.2% its shares in Novatek<sup>2</sup>. It has also been revealed that since 2008 Volga Resources has controlled 74.9% of shares in a huge gas field Yuzhno-Tambeiskoye (1.3 billion m<sup>3</sup> of gas and 40–60 million tonnes of condensate) on the Yamal Peninsula<sup>3</sup>. Furthermore, through Stroytransgaz Timchenko owns 50% of shares in Petromir which

<sup>2</sup> In December information appeared that Volga Resources was planning to increase its share in Novatek to 23.49% by buying shares worth USD 900 million on the stock exchange. *Vedomosti*, 22.12.2009.

<sup>3</sup> In May 2009 Volga Resources sold off 51% of shares in this field to Novatek.

has a license for the large Angaro-Lenskoye gas field (1.2 billion m<sup>3</sup>) in the Irkutsk oblast. These transactions prove that Timchenko is aiming for a significant place in the Russian gas sector and that the main instrument for this aim is to be Novatek<sup>4</sup>. The first results of Volga Resources entering the ranks of shareholders are already visible. In October this year it became known that Novatek has a chance of replacing Gazprom as the main supplier of gas to a part of Inter RAO power stations (in 2010–2015 it is set to supply approximately 64 billion m<sup>3</sup>) and that Novatek's plans to construct LNG terminals on the Yamal Peninsula has been accelerated.

- Timchenko started to seek access to oil fields in Russia. Through Sroytransgaz he gained control of 67% of shares in Uralneftegazprom which has six extraction licenses in the Orenburg oblast (25 million tonnes of oil and 25 billion m<sup>3</sup> of gas). In September Gunvor bought a 30% stake in the Lagansky Block (15–65 million tonnes of oil), in the Russian part of the Caspian Sea, from the Swedish Lundin Petroleum. Moreover, Gunvor has systematically been increasing its share in the Russian sector of oil and oil-based products<sup>5</sup>.

Besides the expansion in Russia, the structures controlled by Gennady Timchenko have also intensified their involvement abroad in recent months. At the end of 2008 Gunvor acquired 50% of shares and, in November 2009, a further 50% in Castor Petroleum, a crude oil trader with offices in Geneva and New York specializing in oil deliveries (about 15 million

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tonnes a year) from Latin America and the Persian Gulf to the US East Coast. Gunvor has thus increased its share in the world's trade in oil. In October Volga Resources bought 54.1% shares in Sovag, a German insurance company, from the Russian firm Ingosstrach.

### The key to success

Looking at what is characteristic of the energy business in Russia – recognised as being strategic and controlled by the authorities – one can assume that the rapid expansion of Timchenko's companies is being made possible due to support from the Kremlin. According to a section of Russian media, Timchenko is a trusted man of the Russian prime minister and their friendship dates back to the period of their work in the Soviet foreign secret services<sup>6</sup>. As early as in 2004 Ivan Rybkin, one of candidates in the presidential elections, counted Timchenko among the friends of Vladimir Putin that were “responsible for his business”. In line with this conviction Timchenko is acting in the private interests of some of the ruling elite in Russia as its “economic agent”<sup>7</sup>. The establishment of Gunvor was intended to enable a section of the ruling elite to centralise and secure control over a substantial part of the export of Russian oil and thus to unofficially make profits out of it<sup>8</sup>. An analysis of the situation of the Russian energy market reveals that the companies controlled by Timchenko can rely on favourable conditions of operation and preferences (deals for selling oil, access to resources and the possibility of acquiring other assets in the energy sector) inaccessible to “regular” firms. The fact that Timchenko's companies are treated in a privileged manner can be proved by partially by: the takeover of shares in the Yuzhno-Tambeiskoye oil field, one of the biggest in Russia; his gaining permission for the construction of a terminal in Ust-Luga (which in a few years will become one of the essential routes of the export of Russian oil<sup>9</sup>); and a loan worth USD 545 million granted for this project by Vnesheconombank (VEB). Aside from political factors, Gennady Timchenko owes his rapid expansion during the economic crisis to the fact that, unlike other owners of huge businesses, he has had

<sup>4</sup> In October 2009 Gunvor made the decision to establish a gas department.

<sup>5</sup> The IPP company, linked with Timchenko, was the first in Russia to obtain permission to export oil from the new terminal in Kozmino in the Far East.

<sup>6</sup> Timchenko denied this in his interview given to *The Wall Street Journal*, 11.06.2008.

<sup>7</sup> *The Guardian*, 21.12.2007. The son of Vladimir Yakunin, the head of the Russian railway and an influential politician seen as a trusted man of the prime minister Vladimir Putin, works for Gunvor.

<sup>8</sup> Details of the purchase of oil from oil companies by Gunvor are not known and Russian courts have rejected demands made by minority shareholders in Rosneft and Surgutneftegaz (Gunvor's largest suppliers) to force the companies to disclose this information.

<sup>9</sup> Timchenko was considered to be one of the lobbyists for the construction of the BTS-2 oil pipeline to Ust-Luga.

considerable financial resources generated in previous years coming mainly from profits made in the sales of oil. He was thus able to buy up assets whose value had significantly decreased due to the economic crisis.

## A new wave of the redistribution of assets?

Timchenko's economic expansion is part of a broader problem of connections between the political elite and big capital in Russia and provides an illustration of the direct impact state officials have on changes in the ownership structure in the Russian economy. It seems that the crisis has caused a new wave of the redistribution of assets in key sectors of the economy and this is happening in the private interests of a part of the ruling elite. For many years people that took important positions with Vladimir Putin were satisfied "merely" with having control over the financial flows of large state-owned or state-controlled companies. It appears, however, that during recent months they have started to use the crisis in order to take over some of the controlled assets through their representatives. Thus a process of securing property by high-ranking state officials can be observed. The case of Gennady Timchenko is the most emblematic example of it and probably the biggest in terms of the scale of the phenomenon but never-

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theless not the only one. A rapid increase in assets controlled by Arkady and Boris Rotenberg, Vladimir Putin's former friends from St. Petersburg, can also be observed. In recent months they have taken over, among other companies, Stroygazmontazh, one of the biggest construction companies in the gas sector and have acquired 10%

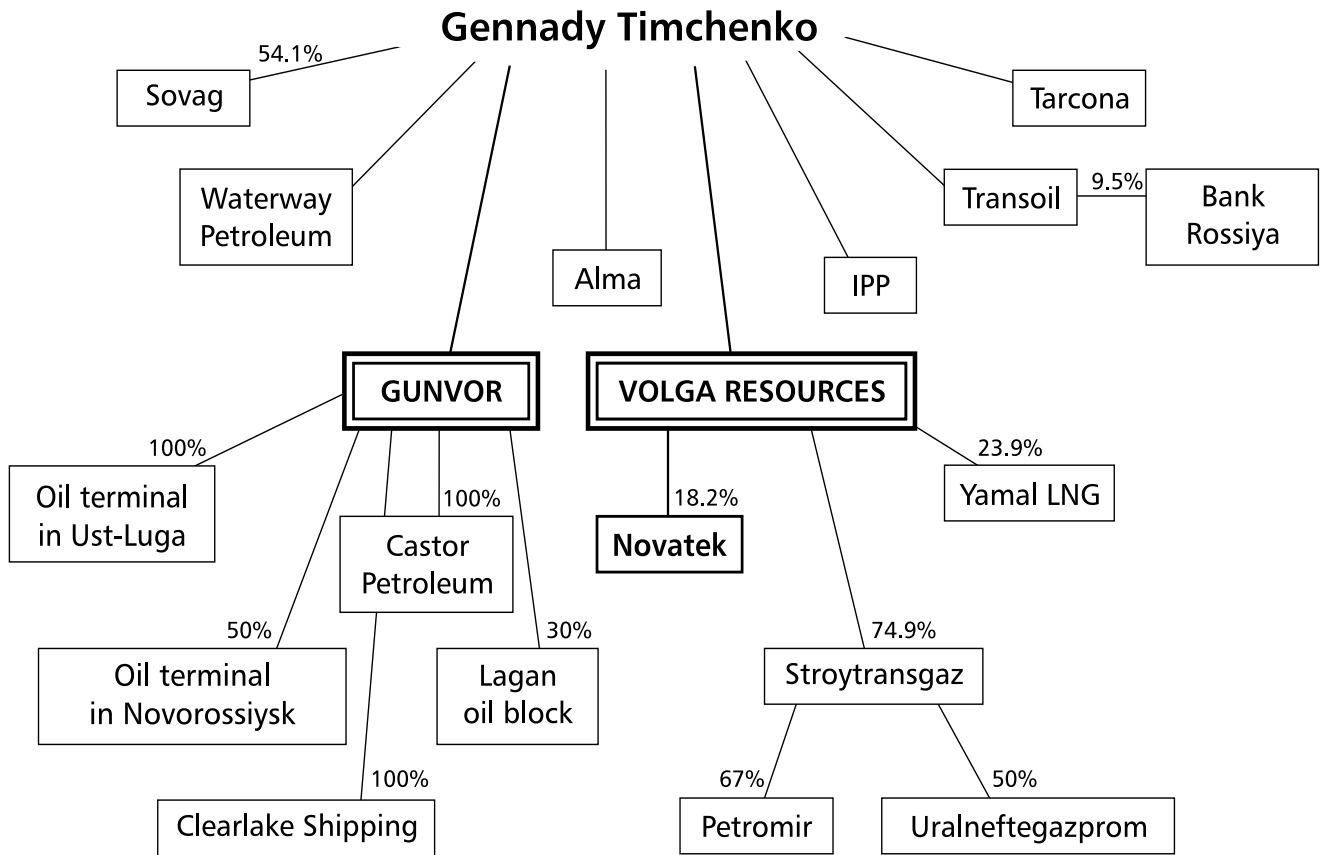
of the largest trading port in Russia – in Novorossiysk. They also control SPM-Bank, a few large plants producing hard liquor and numerous other assets. According to the estimates of the Russian press, the annual revenue of their firms reach a minimum of USD 3 billion<sup>10</sup>. It is difficult to assess the precise scale of the phenomenon of gaining property by the Russian political elite, it can be assumed, however, that the examples cited are not the only ones but rather the most typical. Judging by the dynamic growth of the companies of selected tycoons in the sectors "under the tutelage" of the Kremlin, one can readily believe that the process of the redistribution of assets has been accelerated as a consequence of the economic crisis. According to the assessment of some experts, representatives of the Russian ruling elite may already control a "significant part" of Russian industry<sup>11</sup>.

<sup>10</sup> *Forbes Russia*, 6.11.2009, *Vedomosti*, 9.12.2009.

<sup>11</sup> N. Kriczewskij, Postpikaliewskaja Rossiya: politiko-ekonomicheskaya realnost', Moscow 2009, p. 8, [http://inozemtsev.net/doc/vert/1251655062\\_krichevsky.pdf](http://inozemtsev.net/doc/vert/1251655062_krichevsky.pdf)

## APPENDIX

### Timchenko's ownership structure



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The Centre for Eastern Studies (CES) was established in 1990. CES is financed from the budget. The Centre monitors and analyses the political, economic and social situation in Russia, Central and Eastern European countries, the Balkans, the Caucasus and the Central Asia. CES focuses on the key political, economic and security issues, such as internal situations and stability of the mentioned countries, the systems of power, relations between political centres, foreign policies, issues related to NATO and EU enlargement, energy supply security, existing and potential conflicts, among other issues.

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