



# The Washington Post

## Russian Oil Giant Lukoil Had Big Dreams For Its U.S. Gas Stations. The Invasion Of Ukraine Could Spell The End.

*The private company, which observers said has maintained some independence from Putin, is now caught in a high-stakes economic battle*

**By: Todd C. Frankel and Yeganeh Torbati, March 13, 2022**

The cash price for unleaded gas posted outside Michael Tusinac's window at his gas station in Morristown, N.J.: \$4.49 a gallon. The price would rise another 10 cents within two days. But the bigger problem was the station's red and white Lukoil sign.

"It's killing me," Tusinac said.

**He was on the phone with his landlord, Kashmir Gill, who also runs a Lukoil gas station, just up the road in Whippany.**

The two men shared their laments at being tied to a Russian oil giant that is now a target for American protests over Russia's invasion of Ukraine. Lukoil is a corporate pariah. Two decades ago, it entered the U.S. market harboring big dreams, with even Vladimir Putin flying in for the opening of one Lukoil station. Now, its gas stations face boycotts and calls to shut down.

Tusinac has had picketers some days. Forty minutes away in Newark, local leaders voted to force that city's two Lukoil stations to close. And New Jersey's governor was just on TV talking about taking action against all Lukoil stations in the state.

"Did your volume go down in the last couple of days?" Gill asked.

"Hell, yeah," Tusinac said. "Forty percent."

Gill laughed. His station had been hit, too. The news was so bad it was funny.

“I have no idea what to do,” Tusinac said.

Lukoil, one of the world’s largest energy producers and the second-biggest oil company in Russia, is caught in the middle of an economic war with the West, as previously welcomed Russian companies are cut out from the international system.

The broad and swift unwinding of Russia’s ties to the global economy — spurred by public backlash to Russia’s invasion and the pressure on Western governments to respond — has led to confusion and chaos, resulting in collateral damage for people including American franchise owners Tusinac and Gill, whose stations don’t even sell Russian gasoline, as well as for Lukoil, which former executives and experts described as maintaining a degree of independence from Putin during his decades in power.

Lukoil CEO Vagit Alekperov, they said, has managed to toe a narrow line during Putin’s reign, protecting the company from takeover by Putin allies. This month, Lukoil’s board called for “the soonest termination of the armed conflict” in Ukraine and expressed support for negotiations. The statement stopped short of condemning the invasion, but still represented a distancing from Putin, observers said.

“[Alekperov’s] whole philosophy has been, Lukoil is better as a global company and Russia is better as part of the global system. Both of those are inoperative now,” said Toby Gati, a former National Security Council official who joined Lukoil’s board as an independent director in 2016 and resigned in response to the Ukraine invasion. “It is not possible to isolate Russia forever. When this is over, you’re going to want to engage with Russians who understand that Russia needs to be involved in the global system, and Lukoil would be a good place to start. But not now.”

Lukoil executives both in the United States and in Russia did not respond to requests for comment or an interview request for Alekperov.

In 2000, Lukoil became the first Russian company to buy a public U.S. company when it paid \$71 million for Getty Petroleum Marketing Inc. and its 1,300 gas stations along the East Coast. Getty’s red, white and gold signs eventually became red and white Lukoil ones.

Lukoil marked its American arrival with a 2003 celebration at a former Getty gas station on 10th Avenue in Manhattan. Sen. Charles E. Schumer (D-N.Y.) was there. So was Putin. He shook hands with employees, sipped gas station coffee and even bit into a Krispy Kreme doughnut, according to press reports. (The gas station was eventually replaced by a luxury condo tower.)

At the time, Putin and Russia were heralded. Schumer said Russian oil could help the United States break free from dependence on OPEC nations.

“I hope it does cause problems for OPEC,” Schumer was quoted as saying.

Lukoil soon snapped up hundreds more gas stations, mostly Mobil stations in Pennsylvania and New Jersey, thanks to antitrust concerns following the \$74 billion merger in 1998 between two other oil giants, Exxon and Mobil.

One of those Mobil stations was run by Tusinac. He’d run his station in Morristown since the early ’80s. He saw problems right away with Lukoil.

“They didn’t understand American business, American law, the amount of red tape it takes to get things done,” Tusinac said.

Lukoil told station operators it planned to build an oil refinery in the United States and ship oil straight from Russia — which would give it a pricing advantage, said Tusinac and Gill.

“That fizzled,” Tusinac recalled.

Instead, Lukoil buys gasoline from the Phillips 66 refinery in Linden, N.J., according to three station operators. Phillips 66 declined to comment on its Linden plant. But multiple refinery customers who spoke on the condition of anonymity to discuss refinery operations said the crude oil mostly comes from North America, South America and sometimes West Africa.

In more recent years, the United States has not played a large role in Lukoil’s international expansion. In 2014, after Russia invaded the Crimea region of Ukraine, new, relatively mild U.S. sanctions barred the provision of certain services and advanced technologies to Lukoil and several other Russian energy companies.

Several former executives said that Lukoil has largely declined to pursue energy exploration in the United States.

“Looking at stuff in the U.S. at the time I was there was never really on the table,” said Robin Winkle, a former Lukoil executive in Houston who left in 2017. “I suspect there was a concern that, yes, with the sanctions in place already, it would be difficult for the company to own assets in the U.S.”

One exception was an investment Lukoil made via a private equity fund into a shale energy project in Texas, said Kevin Black, a former managing director at Lukoil based in Houston who oversaw the investment. The investment, which Lukoil has since exited, was massively profitable for the company, Black said.

Alekperov, a Soviet-era oil ministry official and energy executive who was born in Azerbaijan and helped form Lukoil after the Soviet Union collapsed, is seen as a clever operator who has managed to keep Lukoil independent during Putin’s reign, even as companies owned by other oligarchs have been taken over by Kremlin insiders.

One former American Lukoil employee said there was a feeling within the company that “Lukoil was the last independent major oil company in Russia,” and that oligarchs close to Putin were perpetually eyeing Lukoil for any missteps that would give them an opening to take over its assets.

Black said that at the high-level company meetings he attended, some of which included Alekperov, executives stayed far away from politics.

“Politics never came up in meetings, even in Moscow,” he said. “They said, ‘We’re businessmen. Politics is somebody else’s job. All we’re here to do is get oil out of the ground.’”

Anders Aslund, a leading expert on Russia who has written about crony capitalism under Putin, said Alekperov’s strategy to make Lukoil a global oil company, with projects in Mexico, Iraq, Eastern Europe and Africa, has given it a complicated corporate structure. That arrangement would be more difficult for a Russian state company such as Rosneft, headed by close Putin ally Igor Sechin, to take over, Aslund said.

Rosneft said in an emailed statement that it “has great respect” for Alekperov.

“We have repeatedly stated that Rosneft has no interest and no relevant plans for a possible acquisition of Lukoil, with which we are working on a number of projects,” the statement said. “We have always maintained a competitive environment and have not sought to monopolize the market.”

Though Alekperov is firmly within the Russian establishment, he has consistently held himself out as at least somewhat independent of the Kremlin, Aslund said.

“He’s not very close to Putin. He doesn’t do favors for Putin,” he said. “Alekperov wants to say, ‘I’m not Putin’s servant, I’m an independent businessman,’ which is of course an exaggeration. But he’s trying to be as independent as he can.”

But that degree of independence may not mean much now, given the broad appetite in the West for measures that would punish Russia and the shunning of Russia-linked companies by investors. The company’s stock price stood at less than \$7 in early March when the London Stock Exchange suspended trading on a string of Russian companies, a 92 percent drop from the prior month.

Mexico, where Lukoil has oil exploration projects, has said it will not pursue sanctions on Russia in response to the Ukraine invasion. In Iraq, where Lukoil is developing one of the world’s largest oil fields, the central bank has advised the government against signing new contracts with Russian companies, though current deals are unlikely to be affected. Earlier this month, JPMorgan strategists recommended purchasing Lukoil corporate debt, citing in part the company’s international presence.

In an interview, Gati attributed her decision — to resign as an independent director — to Putin’s “horrendous” invasion of Ukraine. A new law that threatens a 15-year prison sentence against anyone who contradicts the official line on Ukraine also was a factor, Gati said, because she knew that she would not be able to keep from speaking out and that doing so would put the company in an impossible position.

“I would look forward to a day when Russia would be open again, when it would be possible to get back to the place we were, but we’re not there, and I just could not be a part of it,” Gati said.

Another independent director, former Austrian chancellor Wolfgang Schuessel, also resigned after the invasion, Reuters reported. Schuessel did not respond to a request for comment.

In recent weeks, as U.S. companies pulled out of Russia and American airspace was closed to Russian planes, the hunt began for other ways — both big and small — to show disapproval of Russia’s invasion. Some U.S. liquor stores stopped selling Russian vodka. Bar owners made a show of pouring Russian liquor into the street. Some high-end restaurants stopped selling Russian caviar.

Protesters gathered outside some Lukoil stations in Pennsylvania and New Jersey. And in Newark, the city council voted unanimously earlier this month to instruct the city’s business administrator to shut down the city’s two Lukoil stations.

Anibal Ramos, the council member who introduced the resolution, did not respond to requests for comment. But he said on Facebook that he wanted to “suspend the license of Russian-owned LUKOIL gas stations in Newark to show our solidarity with the people of Ukraine.”

**“It doesn’t make sense,” said Sal Risalvato, head of the New Jersey Gasoline, Convenience Store and Automotive Association. “It’s nothing more than a publicity stunt.”**

The Lukoil gas stations are not owned by Lukoil N.A. Local residents own the gas stations and operate them, he said. Closing the stations hurts American workers, Risalvato said, including the people who pump the gas. New Jersey is the only state that still bans all self-serve gas pumps.

Newark has yet to actually close the Lukoil stations. It was unclear whether the city business administrator has the authority to do so.

Now, Gill is looking forward to 2024, when his contract with Lukoil expires. He said he’ll turn to a different brand. But he is powerless until then.

He told Tusinac on the phone that he, too, should look forward to the day when he can get out of his Lukoil contract.

“After that, your misery will be over,” Gill told him.

Tusinac didn’t think it would take that long.

“Lukoil is going to have to sell,” he said. “I can’t never see them coming back from this.”

This feels different from the 1989 Exxon Valdez oil spill or the 2010 BP Deepwater Horizon oil spill, Tusinac said. Those led to outrage and protests, too. But at least they were accidents, he said.

What Russia is doing now is different.

“The only way out for Lukoil right now,” he said, “is to replace the signs as soon as they can.”