

Lukoil

To Sherman,  
Thanks for your great  
work. It's a pleasure dealing  
with you.  
Vadim Gluzman.

# Putin at the Pump

Gasoline in the Northeast has quietly acquired a Russian relation.

**LUKOIL** is about to take off the mask | By Deborah Orr

**D**RIVERS PULLING INTO A Getty station believe they are buying gas from the legacy assets of one of America's more eccentric oilmen, Jean Paul Getty. Likewise with the familiar red, white and blue Mobil sign: That means the merged Exxon, right? Not in Pennsylvania and New Jersey. The man now behind those familiar banners is Vagit Alekperov, head of Lukoil, owner of 2,100 gas stations from Maine to Virginia and some of Russia's richest oilfields.

Alekperov is known as "the quiet oligarch," but there is nothing quiet about his ambitions. "The seven sisters should look out because they now have a brother," he said almost ten years ago. Lukoil has grown fourfold since Alekperov, a former Soviet oil minister, created it by consolidating state oil rights in the chaotic days after the collapse of the Soviet Union. He has not yet achieved his goal of turning Lukoil into a globally integrated oil giant, but he does have the makings. Lukoil has 20 billion barrels of proven hydrocarbon reserves, more than any other oil company except ExxonMobil.

With all that oil in the ground,

Alekperov has spent a decade looking for ways to sell it. He set up thousands of service stations around the former Soviet states and then set his sights on the U.S. What better place to peddle petrol than a nation of gas-guzzlers? His aim is to build a company that extends "from Russia's oilfields to the gas tanks of American cars," he says.

Much Russian overseas diversification looks more like capital flight. With President Vladimir Putin taking a tighter grip on the nation's natural resources and the Kremlin taxing Russia's other big oil company, Yukos, into oblivion, the richest are moving what they can overseas as fast as they can.

But not Alekperov, whose wealth *FORBES* estimates at \$3.5 billion. By all accounts he's the president's man. About the plight of his former rival, Yukos head Mikhail Khodorkovsky, Alekperov says simply: "We are in full compliance as far as the government is concerned." On his office desk sits a picture of Putin. When Alekperov hoisted one of the first American Lukoil signs over a converted Getty station in Manhattan late last year, Putin himself was there to cut the ribbon.

"Alekperov takes his ambassadorial

role very seriously," says Adam Landes, head of energy research at Renaissance Capital, a Russian-focused investment bank that has done work for Lukoil.

The Russian energy minister and his U.S. counterpart have been meeting several times a year. "We are always a part of those meetings," says Vadim Gluzman, chief executive of Lukoil's U.S. unit. "The U.S. government is interested in diversifying energy sources."

Gluzman, a 42-year-old Russian émigré, is mysterious about how he met Alekperov. He is an intriguing figure to be running what is already a \$2.2 billion business. Murky about his curriculum vitae since coming to the U.S. (he only acknowledges a post with a Rhode Island garden hose maker), Gluzman himself appears to fit the post-Soviet business model, an engineer by training who happened to be in the right place at the right time with the right idea. He has no experience in retail or energy, but he helped pull off the first Russian takeover of a listed American company with the purchase of Getty Petroleum Marketing four years ago.

The purchase gave Lukoil 1,300 filling stations along the East Coast and some experienced executives who might be per-



suaded to stay. "I grew up during the Cold War, too," says Vincent De Laurentis, Getty's chief. "But with all the consolidation in the oil business, you never knew who you might be working for when you woke up in the morning." He stayed as Gluzman's number two.

The former Getty was a system of franchised and leased stations, and most of the station property was stripped out and reorganized as a REIT. The company will continue to lease and franchise units, but "Lukoil likes to own the dirt," says De Laurentis. "That gives us a lot more control over how a station looks. We can knock buildings down and put new ones up. And it gives employees a sense of permanence."

Lukoil has been quietly buying for the last few years, adding more service stations along the eastern seaboard. This will put Lukoil's outlets closest to inbound Atlantic oil shipments, should Lukoil ever succeed in shipping oil from Russia to the U.S. But Gluzman was thinking more immediately about real estate and the difficulty of opening new gas stations in thickly settled areas. "It's almost impossible to get a license to open a new station around here," says he. "I know, I've tried. In places like Texas and Louisiana they pass out new licenses to anyone." In theory, tight licensing could lead to firm pricing.

In May Gluzman put his theory to the test and bought 800 Mobil stations, some of the busiest in the country, that were split from the rest of Mobil's retail network to satisfy the FTC when Exxon bought Mobil. In a series of transactions that charts the chaotic consolidation of the oil industry, the stations were sold to Tosco, which was bought by Phillips,



Apple polish: Vladimir Putin cuts ribbon in Manhattan with N.Y. Senator Charles Schumer. At left, Lukoil's Vagit Alekperov, Vadim Gluzman.

which then merged with Conoco.

ConocoPhillips put 1,000 East Coast stations on the block last year. Lukoil wanted only the most lucrative New Jersey and Pennsylvania stores. So did several other bidders. There was a dogfight, says Gluzman. Lukoil won with a \$270 million bid. That transaction doubled its retail sales in the U.S. and gives the company a 17% market share in car-choked New Jersey. Lukoil now has 400 more gas stations in the U.S. than in Russia (1,700).

Integrating all these different stations into one enterprise doesn't worry Gluzman. "We closed this deal in May, and by October I had already forgotten we bought something," he says. At a time when most oil companies are shrinking their retail networks and operator-owned stations are barely surviving, Lukoil is expanding. "Of course we will buy more," he adds. "After the rebranding."

Early next year Lukoil will start hoisting its gleaming red-and-white banners over Mobil outlets in New Jersey and

Pennsylvania. Disc jockeys, trampolines, balloons, giveaways, direct mailings and credit card applications will herald the event. Part of Lukoil's \$30 million marketing budget will be spent at sporting events. "We had hoped to advertise with the Philadelphia Flyers and the New Jersey Devils," explains De Laurentis, by embedding the Lukoil logo into the ice. But with hockey season suspended this year, "maybe we'll try basketball," he says.

Once Mobil stations are rebranded, some Getty stations will also get a new look, like the one in Manhattan. "Our stations will be rebranded and brought up to Lukoil's international standards," says Alekperov. What are the Russians' standards? Are the bathrooms cleaner? Is the help friendlier?

At Lukoil's U.S. headquarters on New York's Long Island, Gluzman flips through the coffee-table book *How to Design a Successful Petrol Station* and turns to the section featuring Lukoil's K-shaped canopy in eastern Europe. "You see, our design has won awards," he boasts.

The stations sparkle with enough fluorescent lighting to be seen from the moon. And there is no question who owns them.

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ALEXEI PANOV/TAR-TASS