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EXPANSION OR EXODUS? – FOREIGN OPERATIONS OF RUSSIA'S LARGEST CORPORATIONS

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1 FOREWORD

The most sustainable way to integrate Russia towards the West is to integrate Russian companies more closely in the global business. The trade integration – for instance via Russia's WTO membership, and perhaps by implementing the Common European Economic Space – is a necessary but not a sufficient condition in the creation of the sustainable economic bridge between Russia and the West.

More emphasis should be laid on the investigation of the investment flows between the East and the West. The most solid bridges are those, which do not only support Western investment flows to Russia but also take into account the other side of the coin i.e. the Russian investments in the West. The foreign expansion of the Russian corporations is the most effective and rapid way to increase the global competitiveness of the Russian firms, since the introduction of international competition inside the Russian market via attracting foreign companies in Russia only leads to a slow modification of the old practices. Russia simply cannot afford to execute a gradual globalisation strategy, if she is to strengthen her position in the global economy since her main competitors in the international business have already acknowledged the need for rapid internationalisation.

As scholars have almost completely neglected the outward direct investment from Russia[1], this research aims at filling the gap. Russia is focused on in this study since she covers the lion's share of all the post-socialist economies' outward foreign direct investment. Another reason for investigating the internationalisation of Russian firms is the fast growth in their outward investments since the mid-1990s.

This report describes the recent development in the Russian companies' foreign operations i.e. this study analyses which Russian corporations are the most active abroad, where they operate and which kind of operation modes they use. As the internationalisation of Russian firms progresses rapidly, the Pan-European Institute has decided to monitor their activities 2-4 times a year. These follow-up reports can be found free of charge at the Institute's website.

Turku, 23.6.2004
Peeter Vahtra and Kari Liuhto

[1] Academic studies on the international operations of Russian firms are as follows (in a chronological order): Efimova et al. (1996), Bulatov (1998), Pchounetlev (2000), Väätänen & Liuhto (2000), Heinrich (2001a/b), Jumpponen (2001), Kobyzev (2001), Liuhto (2001a/b), Peregudov (2001), Rybakov & Kapustin (2001), Survillo & Sutyrin (2001), Trofimenko (2001), Liuhto & Jumpponen (2003a/b), and Pelto et al. (2003).

2 EXECUTIVE SUMMARY

The Russian firms' foreign investments are growing heavily and the capital flight, which has heavily burdened the Russian economy over the past few years, is decelerating, at least prior to the outcome of the ongoing crisis over the country's leading oil major, Yukos.

The natural resource-based companies, and the oil and gas companies in particular, have traditionally been the pulling vehicles of Russia's internationalisation. The high oil prices have boosted Russian economy for several years and the leading Russian companies in the sector have emerged as the world-class corporations. The improved financial situation of the companies has brought along the interest towards more demanding internationalisation modes, and more careful selection process of the foreign ventures. The recent internationalisation trend of the Russian oil majors includes preferring the majority ownership to the minority one in their strategic foreign ventures.

Despite the inevitable economic disturbances caused by high inflow of 'oil dollars' in Russia, the country's manufacturing sectors are slowly reviving and many of the industries' leading actors are already on their way to establish considerable foreign presence. Although the exports and foreign sales promotion currently remain the most common modes of internationalisation of the Russian companies, many of the firms are already engaged in more demanding foreign operational modes. Several of the companies other than the NRGs have already shown the way in employing competitive internationalisation practices.

The Russian companies play different games in different regions. The internationalisation of the Russian oil and gas majors are often marked by the political ambitions of the Russian government, pushing these *Patriots* to execute the Russian foreign policy through their foreign operations. On the other hand, many of the smaller manufacturing and retail companies act as *Free marketers*, led by economic rationality in their foreign operations. Furthermore, the economic sphere of Russia has recently been marked by the stricter governmental policy towards the *Fugitives* actively engaged in transferring the money or company assets out of the country by the means not complying with the Russian law or governmental preferences. There is, however, only a thin line between the justice and discrimination, and the consequences of the Russian government crossing the line would be harmful for the investment outlook of the country. Above all, the individual companies run the Russia's integration towards the world's economy, and the discriminating governmental practices would considerably inhibit the essential company-level international co-operation.

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3 A Historical View on the Russian Business Expansion Abroad[2]

"*Russian firms started to invest abroad in the last decades of the 19th century. Capital was exported primarily to China and Persia, as well as to Mongolia. During the period 1886-1914, Russian capital exports amounted to about 2.3 billion roubles (equivalent to $ 33 billion at 1996 prices). Between the two World Wars, the Union of Soviet Socialist Republics did not withdraw all outward investment, although it radically diminished it. To support trade with Turkey, Iran, Afghanistan and Mongolia, a whole net of trading companies was established and operated in those traditional partner countries. Trading affiliates in Western Europe were added later. Also, various banks, transport, insurance and other types of firms were established abroad with Soviet capital. In the post-war period, the number of companies abroad increased somewhat*" (Bulatov, 1998, 69-70).

By the mid-1980s, only a few CMEA joint enterprises with the USSR's participation were operative. Perestroika expanded foreign trade rights in the USSR and the joint venture legislation improved in Eastern Europe in the second half of the 1980s. As a consequence, the number of the enterprises with Soviet participation within the CMEA multiplied. By 1990, at least 175 Soviet-owned joint ventures were registered in the European CMEA countries: 68 in Poland, 50 in Hungary, 38 in Bulgaria, 21 in Yugoslavia, and four in Czechoslovakia (Matejka, 1988; Cheklina, 1991).

The activities of Soviet companies were rare outside the socialist bloc. The USSR firms had around 30 subsidiaries in developing countries and 116 subsidiaries in the OECD countries at the end of 1983 (McMillan, 1987).

Soviet parent companies usually possessed a majority ownership in their Western-based subsidiaries. The Soviet parent company had a majority stake in approximately 90% of the subsidiaries. Pursuing majority ownership was a natural investment strategy, since the Soviet corporations wanted to maintain control over their business activities rather than only act as a profit-seeking investor. However peculiar, the similar trend now reappears in the recent acquisitions and foreign ventures of the modern Russian multinationals (see also Chapter 6).

[2] This chapter is a modified version of the relevant section in the publication "*The Russian Eagle has landed abroad*" (Liuhto & Jumpponen, 2003a).

The overwhelming majority of the Soviet subsidiaries in the West carried out marketing of oil, metals, timber, chemicals, machinery, and vehicles. Besides the marketing function, Soviet organisations also operated to some extent in tourism and travelling. In addition to the aforementioned activities, Soviet subsidiaries abroad serviced the foreign trade activities of the USSR, as they operated in transportation, the insurance business, and international banking (Hill, 1986).

Despite the relatively small number of the Soviet firms abroad, their importance in supporting Soviet exports cannot be neglected. Sokolov (1991a/b) argues that the Soviet units abroad were selling about 40% of Soviet oil and oil product supplies abroad, more than 50% of the exports of civilian-use manufactured goods, and 60% of the timber, paper, and cellulose exports. Although varying and more demanding internationalisation patterns nowadays exist among the Russian corporations, this ‘historical’ export promotion mode seemingly continues to dominate.

When evaluating the role of Soviet enterprises abroad, it should not be forgotten that the foreign operations of these Soviet firms were not motivated by business logic alone, but that Soviet firms abroad also served the goals of the USSR's foreign policy (Hamilton, 1986). As the Russian state continues to control the strategic natural resource-based industries, these internationalisation ‘motives’ have all but disappeared, and several companies continue to execute the Russian foreign policy in their actions overseas.

The outward FDI stock of the USSR amounted only $ 0.7 billion in 1990. At the time, the Soviet Union covered almost a half of the outward FDI stock from the communist economies. The outward FDI stock of the socialist countries formed just 0.09% of the world’s total. Since then, the share of the ex-socialist countries in the world's outward FDI stock has increased. In 2002, the share of all the post-socialist countries was 0.45% of the globe's outward FDI stock (UNCTAD, 2003).

4 RUSSIA'S OUTWARD FOREIGN DIRECT INVESTMENT

According to UNCTAD (2003), Russia's outward foreign direct investment (OFDI) stock amounted to $ 18 billion by the beginning of 2003. The OFDI stock from Russia is modest compared with that of developed Western economies. The United Kingdom is the most active investor in the EU with her OFDI stock totalling almost $ 1033 billion. The USA has the biggest OFDI stock in the world, over $ 1500 billion, i.e. almost 100 times bigger than the respective figure for Russia.

Russia covers just 0.3% of the whole world's OFDI stock. Though Russia is a minor player on the international arena, two things must be remembered. First, the OFDI from Russia will inevitably grow in the future, when the Russian firms' financial situation improves and they gain more experience in international business. Second, the OFDI stock of Russia forms only a fraction of the total Russian capital abroad. One needs to remember that the capital flight from Russia has been at staggering levels during the past 10 years.

Even if Russia is a dwarf in international OFDI comparison, she is a colossus among the transition economies. Russia makes up almost 60% of the transition economies' total OFDI stock. Hungary is the second most active outward investor. Her outward FDI stock is, however, considerably smaller than that of Russia, totalling only some $ 5 billion.

The outward-inward FDI stock ratio among the transition economies is clearly highest in Russia, 80%. This indicator is the second highest in Slovenia, with a figure of 21%. Despite the Russia's leading position in this comparison, one cannot argue that the Russian economy would be the most outward-oriented transnational economy. A more appropriate explanation for Russia's high ratio is her small FDI inward stock. Low FDI inflow and high FDI outflow indicate that Russia has a harsh business environment (see Table 1).

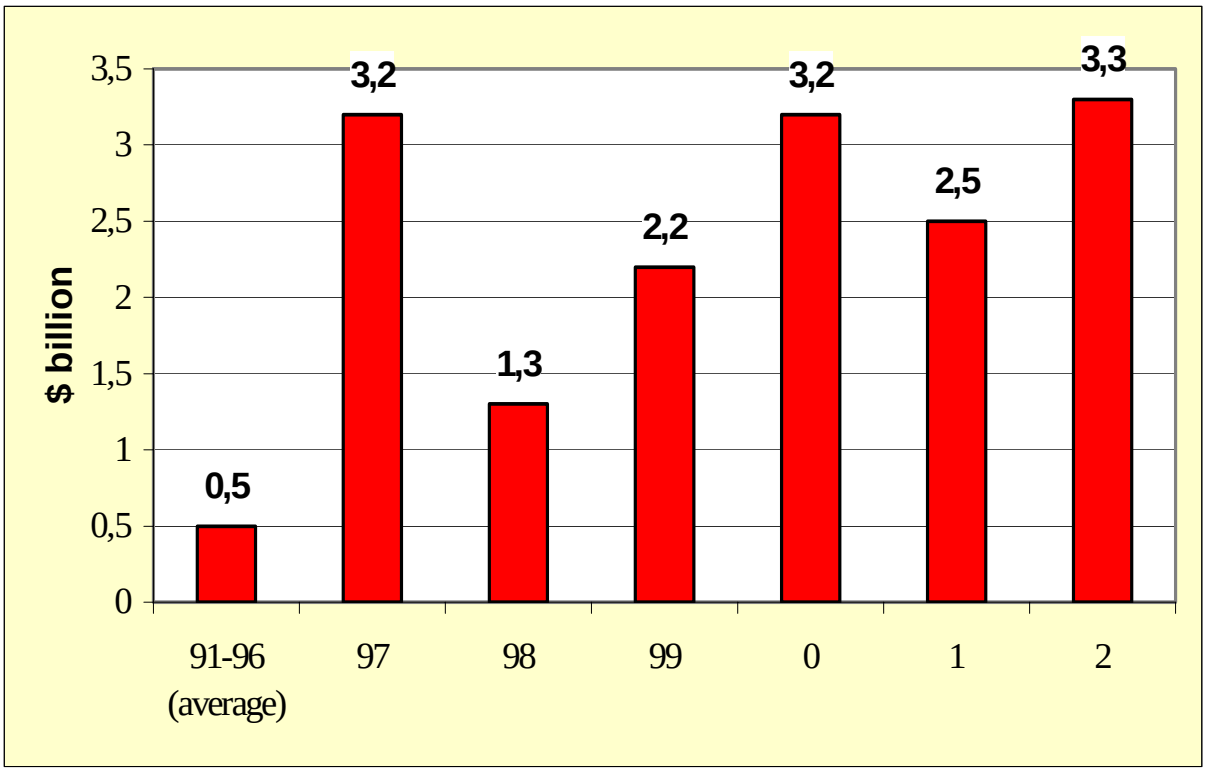
Table 1 Outward and Inward FDI Stocks in the Beginning of 2003

	Outward FDI stock, *$ bn*	Inward FDI stock, *$ bn*	Outward/ inward FDI stock ratio, *%*
All transition economies	30 673	213 007	14
Commonwealth of Independent States (CIS)	19 717	55 376	36
Central and East Europe (CEE)	10 956	157 631	7
Russia	**18 018**	**22 563**	**80**
Hungary	4 641	24 416	19
Czech Republic	1 496	38 450	4
Poland	1 280	45 150	3
Slovenia	1 066	5 074	21
Croatia	1 064	6 029	18
Azerbaijan	957	5 354	18
Estonia	670	4 226	16
Kazakhstan	464	15 354	3
Slovakia	409	10 225	4
Romania	155	8 786	2
Ukraine	153	4 615	3
Bulgaria	125	3 889	3
Albania	86	988	9
Latvia	67	2 723	2
Lithuania	60	3 981	2
Armenia	55	680	8
Kyrgyzstan	45	415	11
Bosnia and Herzegovina	40	828	5
Moldova	19	609	3
Belarus*	6	1 602	0.4
TFYR Macedonia	5	907	0.6
Serbia and Montenegro	n.d.	1 959	-
Turkmenistan	n.d.	1 163	-
Uzbekistan	n.d.	1 332	-
Georgia	n.d.	679	-
Tajikistan	n.d.	162	-
Some Selected Countries			
China	35 538	447 892	8
Finland	69 468	35 509	196
Germany	577 849	451 589	128
United Kingdom	1 033 003	638 561	162
United States	1 501 415	1 351 093	111

* OFDI as of the beginning of 2002
Sources: UNCTAD (2003); authors' calculations.

During the first half of the 1990s, the annual OFDI flow from Russia was roughly $ 0.5 billion. The recorded FDI outflow has multiplied thereafter. The year 2002 witnessed a new record with FDI flow from Russia exceeding $ 3.3 billion. One should neither forget that the FDI outburst has taken place during the past six years i.e. these six years account for almost 90% of Russia's outward FDI stock (see Figure 1). Furthermore, the growing trend is likely to continue and, according to Russian estimations, the net FDI outflow from the country could exceed $ 4 billion in 2003.

Figure 1 Recorded Annual FDI Outflow from Russia



Source: UNCTAD (2003).

The recorded FDI covers only a small part of the total capital outflow from Russia abroad: capital flight, which represents the core of Russian capital overseas, has to be taken into account when trying to provide a rough estimate of the total amount of the Russian capital abroad. According to the European Commission (2004), $ 245 billion is estimated to have flown from Russia during 1992-2002 i.e. Russia's FDI outward stock is less than 10% of capital flight (see Table 2).

During the past two years, capital flight from Russia has, however, decreased somewhat. Whereas during 1998-2001 the capital flight accounted for some 10% of the Russian GDP, the estimated corresponding figure for 2003, presented by Russian Central Bank[3], is a mere 0.6%. Although the capital flight from Russia surged notably in the 3rd quarter of 2003, fuelled mainly by the Yukos probe and the arrest of its CEO, the reversion was witnessed again in the last quarter of the year.

[3] Here, one should interpret the figures with care, since considerable differences may appear between the figures presented by the Russian officials and international financial organisations.

Table 2 Russian FDI Outflow, Capital Flight and Exports

	1995	1996	1997	1998	1999	2000	2001	2002
FDI outflow ($ billion)	0.4	0.9	3.2	1.3	2.2	3.2	2.6	3.3
Capital flight ($ billion)	7.5	26.0	11.0	21.0	21.0	23.6	21.6	8.3
Exports ($ billion)	81.3	88.4	86.7	73.9	74.3	105.2	105.1	107.2
FDI outflow/ capital flight	5.3%	3.5%	29.1%	6.2%	10.5%	13.6%	12.0%	41.3%
FDI outflow/ exports	0.5%	1.0%	3.7%	1.8%	3.0%	3.0%	2.5%	3.1%
FDI outflow/ GDP	0.9%	…	…	…	…	4.8%	4.8%	5.2%
FDI outflow/ gross fixed capital formation	0.5%	1.0%	3.9%	2.6%	8.0%	7.8%	4.4%	5.2%

Sources: Bank of Finland (2001/2002/2003); EIU (2001/2002); IMF (2001); UNCTAD (2000/2001/2002/2003); authors' calculations.

During the past four years, the annual FDI outflow from Russia has been roughly 3% of the country's total export value. Prior to the mid-1990s, the FDI outflow-exports ratio was considerably lower, less than 1%. The growing FDI outflow-export ratio may indicate that the Russian exporters have started investing abroad to support and develop their foreign trade. Such a 'following your own trade flows'- strategy is a common investment pattern in international business.

According to UNCTAD (2003), the outward FDI stock was 0.9% of the Russian GDP in 1995. During the first few years of this millennium, it has varied around 5%. The FDI outflow-gross fixed investment capital formation ratio has also surged. On the eve of this century, it was some 8%, whereas five years earlier it was only 0.5%, indicating that foreign markets have become a much more considerable investment target for the Russian firms.

The UNCTAD data suggests that the EU25 is the main destination for the Russian investments, attracting a half of the Russian outward FDI. According to the EU25 central banks' data, the main destinations within the EU are Poland, Germany, and France, together covering two thirds of Russia's OFDI stock in the enlarged EU. In relation to total outward FDI from Russia ($ 18 billion), substantial investments can be found in many of the old EU15 member countries[4]. However, from the recipients' viewpoint, the Russian FDI in the Western Europe is negligible, rarely covering more than 0.1% of the countries' total received FDI

[4] Russian FDI in the new member countries is dealt with in more details on pages 17-21.

stock. In relative terms, Austria has received the largest amount of Russian FDI, covering some 1.2% of the country's total (see Table 3).

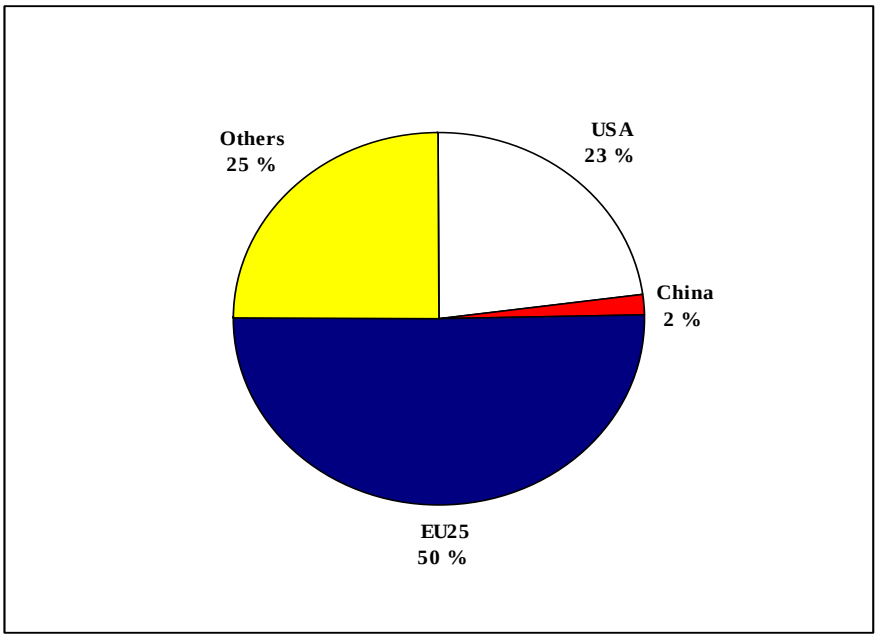
Table 3 **Russian FDI in EU25,** *as of 1.1.2004 unless otherwise specified*

Country	**Russian FDI stock,** *$ mln*	**Share of the recipient's total FDI,** *%*	**Rank among investors**
Austria (1.1.2003)	385.0	1.4	15
Belgium (inflow 2000-2002)	22.9	n.a.	n.a.
Cyprus (inflow 1997-2002)	284.7	n.a.	n.a.
Czech Republic	28.5	0.1	29
Denmark	…	…	…
Germany (inflow 1989-2002)	371.1	0.1	n.a.
Greece	n.a.	n.a.	n.a.
Estonia	78.0	1.2	11
Finland (1.1.2003)	307.0	1.0	n.a.
France	390.0	0.1	25
Hungary	71.0	0.2	8
Ireland	…	…	…
Italy	…	…	…
Latvia	171.2	5.2	9
Lithuania	288.3	5.8	7
Luxembourg (inflow 2003)	420.2	0.5	15
Malta	…	…	…
Netherlands (inflow 1989-2002)	53.6	0.0	n.a.
Poland	1291.9	1.8	11
Portugal	n.a.	n.a.	75
Slovakia	…	…	…
Slovenia	…	…	…
Spain	n.a.	n.a.	n.a.
Sweden	…	…	…
United Kingdom (inflow 1989-2001)	227.7	0.0	n.a.

n.a. – data not available or not being reported due to confidentiality regulations (only a few investing companies)
… – practically non-existent registered investments in the host country, not defined
Sources: National central banks, UNCTAD (2004) [5].

[5] The data was collected through sending an information request to each of the central banks in the EU25. In order to fill the data gaps, the UNCTAD's World Investment Database (WID) was additionally referred to. The WID data is based on the information from the national central banks and statistical agencies.

Figure 2 The Geography of the Russian FDI Outflow during 1995-1999



Source: Kalotay (2003).

Though the UN data indicates extremely modest FDI flows from Russia to Finland, the Bank of Finland (2003) suggests that Russia's FDI stock in Finland was € 307 million at the end of 2002. With this figure the Russian firms possess 1% of Finland's inward FDI stock. Russia's share has decreased notably after Finland's EU accession in 1995, which multiplied FDI inflow from other EU countries to Finland (see Table 4).

Table 4 Development of the Russian FDI Stock in Finland

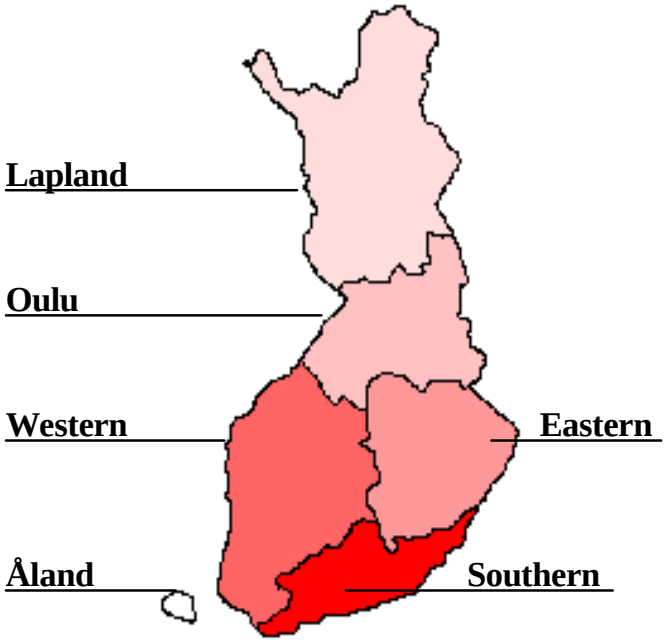
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Russia's FDI Stock in Finland, *mln EUR*	179	170	148	241	241	254	275	272	241	240	306	307
Russia's Share of Finland's Inward FDI Stock	6%	5%	4%	5%	4%	4%	3%	2%	1%	1%	1%	1%
EU's Share of Finland's Inward FDI Stock	57%	54%	59%	61%	70%	70%	72%	77%	84%	87%	90%	91%

Source: Bank of Finland (2003).

1450 joint stock companies, where a Russian citizen holds a position of managing director or has a seat in the board of directors, have been registered in Finland. The overwhelming majority of them have been founded in the capital city region, which is the engine of the

Finnish economy. Finland's regions bordering Russia have attracted a surprisingly small number of Russian firms. Though the number of the Russian-owned enterprises is relatively high in Finland, it needs to be remembered that 60% of Russian firms have a founding capital of only $ 2500 (see Figure 3).

Figure 3 Joint Stock Companies in Finland with Russian Management Participation



Province	Frequency	Percent
Southern Finland	1141	78.7
Western Finland	137	9.4
Eastern Finland	88	6.1
Oulu	58	4.0
Lapland	26	1.8
Åland	0	0.0
Total	**1450**	**100.0**

Source: Jumpponen (2001).

The Russian oil and gas majors have established the strongest presence in Finland. For example, Gazprom holds a 25%-stake in Gasum and a half of North Transgas. Correspondingly, Nafta Moskva owns Teboil and Suomen Petrooli. These sister companies were already operating in Finland during the Soviet era. Their combined turnover was over €

1.7 billion in 2003, ensuring the companies a combined 20%-share of Finland's petroleum retail market (see Table 5).

Table 5 The Companies with Russian Ownership among the 500 Largest Corporations in Finland

Company	Sector	Turnover, $ mln	Rank among the companies in Finland
Teboil	Oil trade	1 082	49
Gasum	Energy	653	71
Suomen Petrooli	Oil trade	458	93
RAO Nordic	Energy	83	379

Source: Talouselämä 500 (2004).

The eastern part of the EU is clearly a preferential investment target for the Russian firms. In absolute terms, Poland is the leading country with over $ 1-billion investment from Russia. Correspondingly, Latvia and Lithuania are the leading countries measured in relative *(share of the country's total FDI stock)* terms. In both of these countries, Russia accounts for over 5% of the total inward FDI stock (see Table 6).

Table 6 Russian FDI in the New European Union

Country	FDI stock ($ mn)	Share of country's total FDI stock (%)	Rank among investor countries	Russian FDI per host country's citizen ($)
Cyprus* (1.1.2003)	284.69	…	…	…
Czech Republic (31.6.2003)	28.50	0.07	29	3
Estonia (31.3.2003)	69.73	1.40	10	50
Hungary (1.1.2003)	71.00	0.23	…	8
Latvia (1.1.2004)	171.20	5.28	9	74
Lithuania (1.1.2004)	288.30	5.21	8	65
Malta (1.1.2003)	0.00	0.00	…	0
Poland (1.1.2003)	1291.90	1.80	11	33
Slovakia (30.6.2003)	less than 10.0	less than 0.10	…	…
Slovenia (1.1.2003)	2.10	0.00	…	0

*1.1.1997-31.12.2002
Source: National banks, authors' calculations.

In the mid-2003, Russia was the 12th largest investor in Poland with a 2%-stake. The largest Russian investment in Poland has been conducted by Gazprom ($ 1.28 bn). Gazprom has equity investments at least in two Polish companies: Europol Gaz and Gas Trading. Practically all Gazprom's investments in Poland have been placed in Europol Gaz, which owns the gas pipeline, Yamal-Europe, inside the Polish territory. Gazprom owns a 48%-stake of Europol Gaz. Gas Trading possesses four per cent in Europol Gaz. Correspondingly, Gazprom owns 35% of Gas Trading. In addition to Gazprom's two aforementioned holdings,

there is only one other Russian unit in Poland, where the investment exceeds $ 1 million - a company producing chocolate and candy, Sniezka. Other direct investments from Russia to Poland are small, though the number of Russian-owned firms is relatively high (Liuhto, 2002).

Lithuania holds the third place among the 10 new EU member states in terms of attracting Russian investments. Russian energy companies have been active in Lithuania. Yukos acquired a 27%-stake in Mazeikiu Nafta, including a refinery and oil terminal in Butinge, in June 2002. Two months later, Yukos acquired another 27%-stake in Mazeikiu Nafta, thereby increasing its ownership to 54%. The price paid for the first stake was around $ 75 million and for the second, some $ 85 million. Correspondingly, a Gazprom-led consortium won a privatisation deal over the Kaunas Hydroelectric Power Station. The consortium has paid around $ 30 million for the plant and pledged to invest further $ 30 million by 2005 to improve the unit. Besides this, Gazprom has acquired a 34%-stake in the gas utility Lietuvos Dujos. As a whole, the Russian firms have invested some $ 250 million in Lithuania.

Russian corporations have invested $ 100 million less in Latvia than in her southern neighbour. The three biggest Russian investments in Latvia are Latrostrans (investor: Transneftprodukt; investment: $ 62 mn; field of operation: transit of oil products), Latvijas Gaze (Gazprom; $ 19 mn; gas supply), and Lukoil Baltija (Lukoil; $ 15 mn; the transit of oil products and their trade). These three investments cover over 60% of the Russian FDI in Latvia. Since 2002, the Latvian port of Ventspils is considered to be a target for Russian investors. Ventspils used to be the main port on the Baltic Sea for Russian oil exports, before Transneft ended its crude oil transportation to the port in January 2003, resulting to a contraction in Ventspils' operating results.

Energy companies are also behind the majority of the Russian FDI in Estonia. The biggest Russian investor is Gazprom, which holds almost a third of an Estonian gas company, Eesti Gaas. Also Itera, another gas firm managed by Russians, holds a significant stake (10%) in Eesti Gaas. Nitrofert is another significant Russian-owned company in Estonia.

According to the Hungarian statistics, Russian companies have directly invested in Hungary some $ 70 million. This amount is questionably small when one takes into account that Gazprom alone has significant stakes at least in five Hungarian companies: (1) a gas trading

and transport company Panrusgas - 40%, (2) an oil and gas equipment manufacturing firm DKG-East Co. Inc - 38%, (3) a bank, General Banking and Trust Co. Ltd, (4) a petrochemical company BorsodChem - 25%, and (5) a petrochemical company TVK - 14%. Besides Gazprom, some Russian oil companies have entered Hungary, such as Lukoil for instance. The small FDI flow from Russia to Hungary leads researchers to assume that a significant stake of Russian investments have floated indirectly from Russia to Hungary, i.e. via another country, such as Austria, Cyprus, Ireland, or the UK.

Russian corporations have invested less than $ 30 million in the Czech Republic. In the country, Gazprom owns a controlling stake in a gas supply company, GasInvest, which operates in close co-operation with Czech gas distributor, Transgas. Furthermore, Gazprom has shown interest in acquiring a stake in Transgas itself.

Thought statistics indicate that Russian direct investment in the Slovak Republic are practically non-existent, one should not forget the major investments by Russian energy companies, which have taken place rather recently, including the $ 74 million investment by Yukos in Transpetrol and the pre-emption right of Gazprom to acquire some $ 1 billion stake in SPP (Slovakian gas pipeline operator).

Russian direct business presence in Slovenia is likely to remain modest due to at least three reasons - (1) in the South Eastern Europe, the Russian oil companies favour the other parts of former Yugoslavia and Greece, (2) Slovenia is a tiny market with relatively fierce competition already in existence, and (3) Russia's natural gas and oil exports to Slovenia are modest.

The Russian firms have recently become particularly interested in the future members of the EU, namely Bulgaria and Romania. Bulgaria has attracted over $ 200 million of Russian direct investments. The biggest single investments have been placed in the gas and oil industry. Gazprom, for example, owns 50% of the gas trading and transporting company, Topenergo. Correspondingly, Lukoil has acquired a Bulgarian oil refinery. Lukoil plans to invest $ 65-67 million to modernise its refinery, in which it already has a 58%-stake.

Russian firms are also eyeing Romanian firms with a particular interest. For instance, Gazprom is repeatedly being cited to have an interest in participating in the privatisation process of Romanian gas distribution companies, a view backed also by the representatives of

the Romanian government. In the Romanian oil sector, the Russian oil major, Lukoil, owns a controlling interest in a Petrotel oil refinery, re-opened in late 2003 after an upgrade. Lukoil is further mentioned as a likely bidder in a privatisation procedure of a Romanian petrochemical plant Oltchim, where a 53%-stake is offered for sale.

The second biggest destination for Russian FDI outflow after the enlarged EU is the USA. The USA's share in Russia's OFDI stock is 23%. Lukoil is one of the biggest Russian investors in the USA. In 2000, the company acquired Getty Petroleum Marketing (GPM) for some $ 70 million. The acquisition of GPM was the first time when a Russian firm acquired a publicly traded US company. In addition to the GPM's network of 1300 gas stations in the country, in 2004 Lukoil acquired additional 795 stations from ConocoPhillips.

Although three quarters of the Russian FDI has landed in the EU25 and the USA, the importance of the rest of the world, especially the CIS, has lately increased in the eyes of Russian firms. It is practically an impossible task to receive reliable, accurate, and comprehensive statistical data on Russian investments in the CIS. The Russian FDI in the CIS would definitely need to be studied closer, since such a research might reveal not only economy-driven but also foreign policy-motivated reasons behind the expansion of the Russian corporations in the post-Soviet territory.

Despite the obvious information gaps, one can argue that Russian investments in the CIS are considerable, even if they do not always appear in the statistics. One reason why Russian investors do not appear in the list of the foreign investors is simply the fact that Russian corporations have invested via another country. To put it differently, Russian corporations may be detected behind investments from Panama, the Bahamas, the Virgin Islands, or even from the USA, or some EU countries, such as Austria, Ireland, Luxembourg, or the Netherlands, and particularly, Cyprus. Prior to her EU accession, Cyprus has been perhaps the most significant transit point for Russian capital targeting to Central and Eastern European countries (see Table 7).

Table 7 Cypriot OFDI Stock in the New European Union and Selected CEEs

	FDI stock *$ mn*	Share of the recipient's total FDI stock, *%*	Ranking among investors
Czech Republic (31.6.2003)	469.19	1.21	…
Estonia (31.3.2003)	9.02	0.20	…
Hungary (1.1.2003)	315.13	1.00	14
Latvia (1.1.2003)	5.95	0.20	31
Lithuania (1.6.2003)	74.70	3.30	29
Malta (1.1.2003)	0.00	0.00	…
Poland (1.1.2003)	998.90	1.46	16
Slovakia (30.6.2003)	194.00	2.20	10
Slovenia (1.1.2003)	8.91	0.22	…
Russia (1.7.2003)	4432.00	19.64	1
Bulgaria (1.1.2003)	274.50	5.16	8
Romania (30.9.2002)	422.43	4.90	8

Sources: National banks, authors' calculations.

The main targets for the Cypriot investments (or the investments through Cyprus) in Central and Eastern Europe (excluding Russia) are Poland, the Czech Republic, Romania, Hungary and Bulgaria. As a curiosity, investing considerable sums, Cyprus barely registers in the trade statistics of any of the above-mentioned countries. The significant amount of the Cypriot FDI is generally considered to be of these countries' domestic or of Russian origin. Interestingly, the Cypriot FDI seems to be relatively bigger in those new EU member states where the (official) Russian FDI is perceptibly low, e.g. the Czech Republic, Slovakia, and Hungary.

The Cypriot companies seem to have considerable presence also in the Baltic States. In Estonia, there are nine registered enterprises established with the Cypriot capital. The Cypriot investment stock in Estonia totals some $ 9-10 million, depending on the reporting source. In Lithuania, 39 companies with Cypriot capital were registered as of June 2003, with their investment stock totalling some $ 74 million. In Latvia, the Cypriot investment stock amounted to $ 6 million at the end of 2002, and 54 Cypriot-Latvian joint enterprises were registered in the country by September 2003. In all the three Baltic States, Cyprus has remained a marginal trade partner, responsible for well under 1% of their foreign trade turnover.

5 RUSSIA'S 100 LARGEST INDUSTRIAL CORPORATIONS ABROAD[6]

The Most Transnational Russian Companies

UNCTAD (2003) provides a list of the 25 largest non-financial transnational companies based in Central and Eastern Europe. Four Russian companies, namely Lukoil, Novoship, Primorsk Shipping, and Far Eastern Shipping, are on that list. In terms of foreign assets, Lukoil was ranked as the largest transnational corporation based in ex-socialist countries with its foreign assets amounting to almost $ 6 billion. Even the combined foreign assets of the other three Russian companies are clearly smaller than those of Lukoil. All these four Russian companies can be found among the top 10 transnational corporations based in TEs (see Table 8).

Table 8 **The Top 10 Non-Financial Transnational Corporations Based in Central and Eastern Europe,** *ranked by foreign assets in 2001*

Rank (asset)	**Corporation**	**Country**	**Industry**	**Foreign assets** *$ mln*	**TNI** [7] *%*
1	**Lukoil**	**Russia**	**Petroleum and natural gas**	**5830.0**	**35.0**
2	**Novoship**	**Russia**	**Transport**	**998.9**	**55.5**
3	Latvian Shipping	Latvia	Transport	…	77.7
4	Pliva Group	Croatia	Pharmaceuticals	281.1	48.3
5	Hrvatska Elektroprivreda	Croatia	Energy	272.0	4.2
6	**Primorsk Shipping**	**Russia**	**Transport**	**267.3**	**63.2**
7	Gorenje Group	Slovenia	Domestic appliances	231.5	42.6
8	Krka	Slovenia	Pharmaceuticals	190.8	45.5
9	**Far Eastern Shipping**	**Russia**	**Transport**	**123.0**	**22.8**
10	Mercator	Slovenia	Retail trade	112.7	8.9

Source: UNCTAD (2003).

5.1 Oil and natural gas

Russia possesses substantial oil reserves, ranking 7th by proven reserves in worldwide comparison. Only Saudi Arabia, Iraq, the United Arab Emirates, Kuwait, Iran, and Venezuela possess larger reserves than Russia. Russia produces over 1/10 of the world's oil production, with her own oil consumption accounting only for 1/25 of the world total. Although Russia is wealthy in oil reserves, her worldwide position is even far stronger in natural gas sector. Russia holds over 1/4 of the world's total gas reserves producing some 1/4 and consuming 1/6

[6] The selection of the companies to be included in this research was made based on the ranking by Expert Rating Agency (see Appendices 1 and 2). The selection was made based both on the size of the companies and the scale of their foreign operations.

[7] The transnationality index (TNI) is calculated as the average of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment.

of the world's total. Russia is the second biggest oil exporter after Saudi Arabia and the main exporter of gas in the world (see Table 9).

Table 9 **Russia's Oil and Natural Gas,** *as of 31.12.2003*

	Reserves	**Production**	**Consumption**
Oil	6.0% of the world total (ranks 7th worldwide)	11.4% of the world total (ranks 2nd worldwide)	3.4% of the world total (ranks 5th worldwide)
Natural gas	26.7% of the world total (ranks 1st worldwide)	22.1% of the world total (ranks 1st worldwide)	15.7% of the world total (ranks 2nd worldwide)

Source: BP (2004).

There are altogether roughly 100 companies producing oil in Russia, but despite their large number, oil production is practically in hands of less than 10 vertically-integrated companies. In 2003, the three biggest companies, Lukoil, Yukos and TNK-BP, were responsible for nearly 55% of the nation's crude oil production.

The state-owned gas giant, Gazprom, practically holds a gas monopoly in Russia, producing well over 80% of the country’s natural gas. Itera, the second largest gas producer in Russia, accounts only for some 3% of the Russian gas production.

Summing up, oil and gas sector has a fundamental role in Russian economy. First, oil and gas cover some 3/4 of Russia's primary energy consumption. Second, the oil and gas sector officially forms some 10-15% of the Russian GDP[8]. Third, oil and gas firms are responsible for over 50% of the federal budget revenues. Fourth, the two sectors currently account for over a half of Russia's total exports and, given the constantly high world oil prices, the trend is unlikely to change for years to come.

The dependence of the Russian economy on still highly unstable oil prices has, however, raised increasing concerns on the macroeconomic stability of the country, and the signs of so-called Dutch disease are already visible. Under the current trade regime, the high oil and gas export revenues and, consequently, the strengthening of domestic currency are eating up the export competitiveness of the other industrial sectors.

Such an economic status makes the oil and gas sectors not only extremely powerful economic actors, but also a political *éminence grise* in Russia, and even outside her borders. The

[8] According to World Bank (2004), the share of the oil and gas sectors in Russian GDP totals some 20-25%.

upheavals around the country's leading major, Yukos, have further initiated discussions on the relations between the economy and politics in the country along with the actual state control over the oil sector. Notwithstanding the outcome of the Yukos case, these events have a profound effect on the internationalisation development of the Russian companies, as well as the perception of the Western investors about Russia.

During the recent years, the biggest of Russian oil companies have increasingly caught up with the world's leading oil majors. The crude output of the Russian leading oil companies is already close, and the reserves even superior, to their Western counterparts (see Table 10). Moreover, according to the official estimations, Russian companies possess reserves for up to 23 years whereas their foreign counterparts have reserves for some 13 years under the current production terms.

Table 10 World's Leading Oil Companies in 2003

Company	**Oil production** *mn tonnes*	**Sales** *$ mn*	**Market capitalisation,** *as of mid-May '04 $ bn*	**Proven oil reserves** *bn bbl**
British Petroleum	105.7	230 442	187.2	10.3
ExxonMobil	125.8	210 713	275.0	22.0
Royal Dutch/Shell	119.4	120 479	97.6	11.0
ChevronTexaco	113.8**	114 163	95.4	
Total	126.6	115 475	117.8	11.4
ConocoPhillips	50.0	95 027	49.2	4.7
Lukoil	**81.5**	**22 701**	**22.0**	**15.3**
Yukos	**80.8**	**16 839**	**17.2**	**13.7**
TNK-BP	**61.6**	**12 600**	**-**	**9.4**
Surgutneftegaz	**54.0**	**7 927**	**14.5**	**6.6**
Sibneft	**31.5**	**6 715**	**13.0**	**4.5**

* barrels
** oil and gas reserves combined
Sources: Companies' data, Troika Dialog (2004a), authors' calculations.

The Russian actors are nevertheless lagging behind the Western oil giants in terms of market capitalisation and the global reach. The estimations of the undervaluation of the Russian companies compared to the Western majors vary from 65% to 85%. During the recent years, however, the Russian producers have taken significant steps to the right direction and are catching up with the Western majors at increasing pace, also in terms of market capitalisation. Nevertheless, as long as the Russian companies are obliged to supply the domestic markets for artificially low oil and gas prices, their profits and, thus, their market valuation will not stand up with those of their foreign counterparts.

Lukoil retained its position as the biggest Russian oil producer in 2003. Although Lukoil maintained the leading position in the sector, its production growth lags behind of that of its main rivals, Yukos and TNK-BP, the former of which already overtook Lukoil in production terms during the last months of 2003. In worldwide comparison of private oil companies, Lukoil ranks 6th in terms of production and 2nd in proven oil reserves (see Tables 10 and 11).

Table 11 Lukoil's Performance

	2001	2002	2003
Revenues, *$ mn*	13 562	15 449	22 649*
Crude production, *mn tonnes*	76.7	78.1	81.5
Share of Russia's total, *%*	22.0	20.6	19.2
Refined production, *mn tonnes*	49.0	41.4	42.0
Proven reserves, *mn barrels*	…	…	15 258
Crude exports, *mn tonnes*	…	34.2	37.5

* Estimated

Currently, the Russia's biggest oil producer has established the most extensive international presence among privately owned Russian companies. Lukoil has been active in purchasing stakes in foreign oil fields, production facilities and retail property. Nearly a fifth of the corporation's reserves are located abroad. Its major foreign fields are in Iraq, the Azeri and Kazakh sectors of the Caspian Sea, and Egypt (see Table 12).

Table 12 Lukoil's Stakes in Foreign Oil and Gas Projects

Country	Type of activity	Potential reserves	Lukoil's share, *%*
Iraq			
West Qurna	Exploration	20 bn bbl	69
Azerbaijan			
Zykh-Govsany	Exploration	51 mn bbl	50
Shakh-Deniz	Exploration	3 bn bbl of condensate	5
D-222 (Yalama)	Exploration	1 bn boe*	8
Kazakhstan			
Turgai Petroleum	**Production**	n.a.	50
Karachaganak	**Production**	12 bn bbl of condensate	15
Tyub-Karagan	Exploration	2.8 bn boe	50
Tengiz	Exploration	6-8 bn bbl	3
Egypt			
Meleiha	**Production**	7.5 mn bbl	12
WEEM block	**Production**	32.5 mn bbl	100
West/ Northeast Geisum	Exploration	228 mn bbl	50
Columbia			
Condor block	Exploration	2.5 bn bbl	70
Iran			
Anaran block	Exploration	3.7 bn bbl	25
Saudi-Arabia			
Block A *(Luksar)*	Exploration	1.5 mn boe	80

* barrels of oil equivalent
Sources: Company sources, Petroleum Argus (2004).

Roughly three quarters of the company's proven foreign reserves lie in the Iraqi's West Qurna field, estimated to be one of the largest in the world with the potential reserves of some 20 billion barrels. Due to the stalled operations in Iraq, the Kazakh and Egypt fields are currently responsible for practically all of the company's foreign production. Recent removal of the sanctions on Iraq have initiated promising negotiations between Iraqi and Russian representatives, to restart the operations on the field, but significant exploration operations are unlikely to start before considerable security improvements in the region. In the meanwhile, Lukoil has agreed on a venture with a US company, Fluor Daniel, for the latter to provide exploration equipment for the Lukoil's Iraqi project. Nevertheless, the troubles around the Iraqi exploration projects have forced Lukoil to seek other production outlets in the Middle East, and the company is likely to bid for three major oil fields in Iran, to be sold in the latter half of 2004.

In January 2004, Lukoil won a tender for exploration and development of a major gas block in Saudi Arabia (block A in the Empty Quarter in Southeast Saudi-Arabia), granting the company an 80%-stake in a joint venture with Saudi Aramco. The new venture, Luksar, will be headed by a Lukoil manager and it should become operational in 2004. The Middle East is a strategically important region for Lukoil, who plans to raise its foreign oil and gas output from current 4% to some 10-15% of total by 2013. In 2003, Lukoil acquired a 25%-stake in Anaran oil block in Iran, potentially holding up to 2.5 billion barrels of crude.

In 1996, a joint venture was formed between Lukoil and the Italian company, Agip, to carry out foreign exploration and development projects, the largest of which include the Meleiha oil project in Egypt and Shah-Deniz offshore gas project in Azerbaijan. Since Lukoil only holds a minor stake in both projects, contradicting the company's strategic interests towards the majority ownership in the large-scale projects, Lukoil has announced a tender for selling its stake in the LukAgip venture. The outcome of the tender is expected around mid-2004, with Lukoil cashing out from the venture being the most likely outcome. This view is backed by the recent need for capital in the company's major Saudi Arabia and Caspian Sea projects.

Even if Lukoil has considerable stakes in oil fields abroad, foreign production accounted for only some 4% of the group's total oil and gas condensate production in 2002. Freezing of the Iraq's West Qurna-project significantly lowers the scale of Lukoil's foreign production

activities. Therefore, great efforts are made, to proceed with the negotiations and release the field's vast production potential in the near future.

In May 2004, Lukoil announced a product sharing agreement (PSA) to be signed with Uzbekistan's state energy company, to extract oil and gas deposits in the country's central Bukhara region. The preliminary agreement on the $ 900-million project was signed already in 2001. The Bukhara reserves are estimated to hold some 250 billion cubic meters of natural gas and 10 million tonnes of oil. Realisation of the project would mean a considerable extension to the Lukoil's foreign resource base.

Besides participating in the development of foreign oil fields, Lukoil has acquired controlling stakes in three foreign refineries in Bulgaria, Romania, and Ukraine. In 2002, some 17% of Lukoil's refining activities were carried out in these foreign refineries. In addition to the refining facilities, Lukoil has signed an agreement with the Ukrainian Naftogaz Ukrainy, to establish a joint venture for motor oil and lubricant manufacturing. The plant would be located in Ukraine and Lukoil has pledged to invest around $ 20 million in the project (see Table 13).

Table 13 Lukoil's Foreign Refineries in 2003

Refinery	**Country**	**Capacity** *mn tonnes/year*	**Production** *mn tonnes/year*	**Ownership** *%*
Neftochim	Bulgaria	10.5	5.2	58
Odessa	Ukraine	3.8	2.5	100
Petrotel	Romania	3.8	Out of operation until late 2003	87

Lukoil possesses an extensive retail network of altogether over 4700 stations, nearly 900 of which are located in other former Soviet republics and Eastern Europe. In the end of 2003 Lukoil won a tender to acquire 80% of the shares of Serbian Beopetrol, operating some 200 gas stations and several oil storage facilities in Serbia Montenegro. The deal is valued at $ 133 million, added by further commitment to invest $ 97 million in development of the company's assets.

Lukoil has additionally gained a foothold in the USA, where the company owns a network of retail stations. In 2000, along with the takeover of a US company, Getty Petroleum Marketing (GPM), Lukoil acquired some 1300 filling stations in the USA. This retail network was

extended by the acquisition of 795 stations from ConocoPhillips in 2004 for the price of $ 266 million. For serving its extended retail chain, the company has announced its interest in acquiring an oil refinery in Western Europe or in the USA. Simultaneously with the US retail acquisitions, Lukoil has abandoned some of its comparably low-profit petroleum stations in the CIS and Eastern Europe. As a result of this strategy, the company sold three Czech petroleum stations in December 2003.

The $ 70-million takeover of GPM was Lukoil's first step towards the expansion of the USA and the first time when a Russian firm acquired a publicly traded US company. The acquisition of GPM clearly indicates Lukoil's attempt to extend its global reach besides its orientation towards the post-socialist markets. In July 2001, Lukoil additionally acquired a Canadian exploration and production company, Bitech Petroleum, operating in Colombia, Egypt and Tunisia.

Furthermore, Lukoil has been reported to have interests in production sites in Libya and Venezuela and refineries in the USA or Canada, for serving its US retail network, as well as Poland or Belarus, for supplying the European market.

In conclusion, Lukoil is a truly global Russian company. In terms of reserves and production, it ranks among the leading oil majors in the world. Lukoil is represented in over 30 countries, and more importantly, an increasing part of its operations are located outside Russia. The company's foreign operations include upstream, refining, and marketing activities. Measured by foreign assets, Lukoil clearly ranks number one oil company in Russia. If the company's ambitious goals of extending its foreign production, refining, and retail activities will be achieved, no major challengers for this leading position are in sight.

Yukos conquered the position of the largest Russian oil producer in the end of 2003. Although slightly lagging behind Lukoil in terms of annual production, during the second half of the year, Yukos' daily output was ahead of that of its main rival. Additionally, the Yukos' production growth was unrivalled by its main competitor. In terms of market capitalisation, Yukos was the leading Russian oil company until the end of 2003, experiencing, however, a considerable drop in its share price as the scandal deepened around its main shareholders. By the end of June 2004, the crisis had cost the company almost a half of its market value.

In the end of 2003, Yukos was due to merge with a smaller Russian oil company, Sibneft, but the deal collapsed as a result of political turmoil around Yukos. If had been realised, the merger would have yielded the world's 4th biggest oil company in terms of production and the world leader measured by the proven oil reserves.

Yukos exports a significant proportion of its crude production (53% in 2003), being the second biggest exporter in Russia, outperformed only by Gazprom. The corporation has export activities in over 40 countries and its exports were estimated to value some $ 6 billion in the first half of 2003.

Table 14 Yukos' Performance

	2001	2002	2003
Revenues, *$ mn*	9 461	11 373	17 308*
Crude production, *mn tonnes*	58.1	69.5	80.8
Share of Russia's total, *%*	16.7	18.3	19.1
Refined production, *mn tonnes*	28.8	32.9	38.1
Proven reserves, *mn barrels*	12 581	…	13 734
Crude exports, *mn tonnes*	30.1	36.8	49.2

* Estimated

During the past years, Yukos has emerged as a recognised actor in the international oil business, owing to its impressive production growth and aggressive internationalisation strategy. Yukos International, a unit based in London, has been set up to handle the group's expanding global interests. Yukos International is also the holding company for John Brown Hydrocarbons, Davy Process International, and Yukos Services.

Yukos' internationalisation strategy has thus far emphasised the development of distribution outlets and enhancing the company's export capacities, rather than establishing foreign presence *per se*. The company has been active lobbying for enhanced pipeline connections to both China and, through the port of Murmansk, further to the USA. In terms of oil reserves, Yukos holds a clear advantage compared to its main rival, Lukoil. Possessing younger and less depleted oil wells in Russia, the company has notably better growth projections through its domestic production[9]. Lukoil, on the other hand, actively seeks for new foreign oil reserves with its domestic reserves far closer to exhaust.

[9] Here, only the quality of the wells is considered, apart from the possible deprival of Yukos of its production licenses as a result of the current crisis. In this sense, Yukos' production foresights remain more than doubtful.

In the beginning of 2002, Yukos acquired 78% of the Federovsky exploration block in Kazakhstan. This was the company's first international upstream venture and production outlet outside Russia.

Yukos acquired a 49%-stake in a Slovak pipeline company, Transpetrol, in a $ 74-million deal in 2002. Through Transpetrol, Yukos controls the Slovakian sector of one of Russia's main pipeline export outlets, the Druzhba pipeline. The strategic significance of the acquisition will increase along with completion of reversal of the Druzhba-Adria pipeline, allowing the Russian crude to be exported straight to the Croatian Mediterranean port of Omisalj. These shipments would considerably improve the competitiveness of the Russian oil exports to the USA, due to notably lower transportation costs. The intergovernmental agreements for the project realisation have been signed by all the parties but Belarus, expected to comply with the terms by the time of publishing of this report. Should Belarus sign the agreement, the pipeline is to become operational in the second half of 2004.

In the mid-2002, Yukos acquired a controlling stake in a Lithuanian refinery, Mazeikiu Nafta, along with a part of Lithuanian oil pipeline system and oil terminal at Butinge on the Baltic Sea, in an investment worth some $ 160 million. Besides Mazeikiu, Yukos is seeking for Baltic foothold through acquisitions of retail outlets, and has already entered the petroleum retailing markets in Latvia and Lithuania. Yukos has further announced its interest in entering the Estonian petroleum market during 2004.

The foreign operations of Yukos are not only limited to ex-CMEA and China, but the company has also established its presence in Western Europe. In November 2001, in search of technological expertise of industrial facilities and pipeline systems, Yukos acquired John Brown Hydrocarbons and Davy Process Technology from a British-Norwegian engineering firm, Kvaerner for $ 100 million.

Table 15 Yukos' Selected Foreign Ventures and Projects

Country	Yukos' share in the project, %
UK	
Technological expertise: John Brown Hydrocarbons and Davy Process Technology (11/2001)	100
Slovakia	
Logistics: Slovak national oil pipeline operator Transpetrol (1/2002)	49
Kazakhstan	
Upstream: the Federovsky exploration block (1/2002)	78
Lithuania	
Refining: acquisition of a Lithuanian oil refinery Mazeikiu Nafta (mid-2002)	54
Retailing: establishing petroleum station network	100
Latvia	
Retailing: establishing petroleum station network	100
Austria	
Crude pipeline: construction plans in Austria, a JV with Austrian OMV (12/2003)	50

To conclude, Yukos is a rather new player in the international oil business. The company is, however, probably the most known Russian firm due to the widespread crisis around its core shareholders. In addition, its international operations have been mostly high-profile in their nature, such as the ultimate lobbying for both the Russia-China crude pipeline[10] and the Murmansk deepwater port for large-scale crude exports to the USA.

Though its international activities are not yet comparable to those of Lukoil, Yukos is probably the second most transnational Russian oil company, constantly increasing its foreign presence. Yukos should definitely rank in the UNCTAD's list of the most transnational firms based in Central and Eastern Europe, as the value of its three acquisitions (Transpetrol, Mazeikiu Nafta, and two technological units of Kvaerner) is close to $ 350 million. One should not forget that the aforementioned sum excludes the company's investment in Kazakhstan, and hence, Yukos should definitely be placed among the top 10 transnational firms based in transition economies.

TNK-BP was created in the beginning of 2003 in occurrence of thus far the biggest single foreign investment in the Russian economy. In the deal, British Petroleum bought a 50%-stake in Tyumen Oil Company (TNK), worth $ 7 billion, from Alfa Group and

[10] The Russian authorities have decided in favour of building a pipeline to the Russian Far-East port of Nakhodka, co-financed by the Japanese government. An option for building a branch from the Nakhodka pipeline to China has been discussed as a longer-term solution.

Access/Renova Holdings (AAR). The creation of the joint venture was officially completed by the end of August 2003. Along with the deal, AAR transferred its holdings in both TNK-International and in another Russian oil company, Sidanco, to the new consortium. Later incorporation of AAR's 50% stake in Russian Slavneft into TNK-BP took place in the end of 2003, with BP paying additional $ 1.4 million for this stake[11].

Newborn TNK-BP is holding the third position in Russian oil sector both in terms of production and proven oil reserves. In the worldwide list of private oil companies, TNK-BP is placed 8th in production and 9th in proven reserves. In 2003, the company's oil production grew by considerable 15%. Only Sibneft and Yukos posted higher growth figures for the year. TNK-BP possesses substantial oil reserves, estimated the biggest in Russia[12]. The company's international sales amounted to some $ 6.2 billion in 2002. Taking into consideration the company's giant reserves, extensive exports and a wide foreign clientele, TNK-BP has established relatively modest presence abroad. The venture can thus be seen more as an initial link in the BP's value chain, providing the parent company with substantial crude reserves, rather than a separate multinational actor.

Table 16 TNK-BP's Performance

	2001	2002	2003*
Revenues, *$ mn*	6 173.1	6 912.4	5 628.3**
Crude production, *mn tonnes*	35.0	37.9	61.6
Share of Russia's total, *%*	10.0	10.0	14.6
Refined production, *mn tonnes*	20.4	20.9	25.0
Proven reserves, *mn barrels*	…	…	9 374
Crude exports, *mn tonnes*	16.6	17.2	27.1

* including Sidanco; **1H03

Following the merger with BP, TNK has, nevertheless, notably lifted its international profile and is likely to extend its global reach during the next few years. TNK-BP has emerged as a potential buyer of Latvia's Ventspils oil terminal, which will be prepared for sale probably during 2004. TNK-BP has already overtaken the problem-ridden Yukos as the main exporter of oil through the terminal and the company is believed to be in talks with the authorities concerning the takeover of the outlet. Ventspils' operating profits collapsed after Russian Transneft stopped its crude exports to the port in 2002.

[11] Another 50% of Slavneft is owned by another Russian oil major Sibneft, and the split of assets between the two companies is underway at the time of writing this report.
[12] The estimation is based on both proven and probable reserves.

TNK-BP has also planned to take part in constructing and operating the 4 million tonnes/year Vistino oil terminal on the Baltic Sea near St. Petersburg. These two projects also show some features of interconnectedness, since the involvement of TNK-BP in Vistino can be used for increasing the pressure on Venspils Nafta for selling up the terminal in Latvia. Whichever the results of the negotiations, TNK-BP is evidently attempting to strengthen its position on the export markets, by gaining the foothold on the Baltic Sea. Succeeding in the projects would significantly improve the company's position as a major exporter and would enable the increasingly efficient use of BP's extensive retail and marketing network in Europe. In addition to the Baltic projects, TNK-BP is currently planning the construction of a natural gas pipeline from the Eastern Siberian Kovytka field to China.

By the beginning of 2004, TNK-BP has established foreign presence only in Ukraine. In mid-2000, TNK-BP acquired the Lishichansk refinery in the country in a $ 60-million deal. The company's activities in the country are run by its subsidiary, TNK-Ukraine. In addition, TNK-BP possesses 925 gasoline stations in Ukraine.

TNK-BP's internationalisation has been thus far mainly carried out via exports and through expanding its filling station network abroad. The company's outward expansion is dominantly directed towards the ex-CMEA market, where it perceives to possess a competitive advantage vis-à-vis its main Western rivals. Due to the merger with BP, the Western markets have, however, become more lucrative for the company than before and in the near future, the company is likely to strengthen its international position. Having already gained considerable domestic leverage, the strategic objectives of TNK-BP include becoming a leading player in the CIS region.

Surgutneftegaz is the fourth largest oil producer in Russia. The company has the fifth largest oil reserves in Russia after Lukoil, Yukos, TNK-BP and Tatneft. In 2003, Surgutneftegaz' production growth was slightly below the industry average. Compared to its rivals, Surgutneftegaz has so far been passive in international activities other than exports. Surgutneftegaz' export activities comprise 13 countries, which is a small number compared to that of Yukos and TNK-BP, with both having over 40 countries in their export list.

Table 17 Surgutneftegaz' Performance

	2001	2002	2003
Revenues, *$ mn*	5 074	6 408	7 924*
Crude production, *mn tonnes*	44.0	49.2	54.0
Share of Russia's total, *%*	12.6	13.0	12.8
Refined production, *mn tonnes*	…	14.5	17.0
Proven reserves, *mn barrels*	…	…	6 642
Crude exports, *mn tonnes*	…	…	…

* Estimated

One can conclude that Surgutneftegaz is a domestic behemoth passive in modernising its operational practices both at home and overseas. Apart from increasing exports, the company has shown no signs of expanding its foreign activities.

Sibneft, which is practically owned by Roman Abramovich through an offshore investing company, Millhouse Capital, is clearly the most rapidly growing Russian oil company. Sibneft has posted an annual production growth of some 20% for the past few years. The company is currently exporting over 40% of its crude production. In the first half of 2003, Sibneft's exports amounted to some $ 1.2 billion, accounting for over a half of the company's total revenues for the period. The company's oil exports are handled by its wholly-owned subsidiary Sibneft Oil Trade (Siboil). The majority of Sibneft's crude is shipped via Novorossiysk and Tuapse, with the remaining share mostly exported through the Druzhba pipeline to Poland and Germany. Since 2002, also the importance of the Baltic port of Primorsk as an export outlet has increased.

Table 18 Sibneft's Performance

	2001	2002	2003
Revenues, *$ mn*	3 449	4 835	6 863*
Crude production, *mn tonnes*	20.6	26.3	31.4
Share of Russia's total, *%*	5.9	6.9	7.5
Refined production, *mn tonnes*	…	15.8	17.7
Proven reserves, *mn barrels*	4 644	4 575	4 545
Crude exports, *mn tonnes*	7.3	10.8	12.5

*Estimated

In 2003, Sibneft was due to merge with Yukos, in a deal that would have created the world 4th largest oil major. However, in its final phase, the Sibneft's major shareholders pulled out from

the deal due to the increasing troubles around Yukos[13]. Since the collapse of the deal, several Western majors have shown great interest in acquiring a stake in Sibneft.

In search for technological expertise, Sibneft formed a strategic alliance with London-based Schlumberger in late 1999, followed by several co-operation agreements with international service companies. However, the authors have not located any foreign unit belonging to Sibneft, indicating practically non-existent international presence. Thus far, the company's strategy has seemingly included targeting high growth levels and establishing stronger position in the Russian oil sector by increasing the domestic production. Together with TNK-BP, the company controls a 50%-stake in Slavneft, seen as a strategic unit for additional production growth. The future internationalisation patterns of Sibneft will most likely be connected with the interests of Western majors in acquiring a stake in the company. The realisation of any major deal nevertheless remains doubtful[14], taking into account the increasing governmental interests in Russian oil sector and assets.

Rosneft's, Russia's biggest state-owned oil company's, experience on international operations dates back already to the Soviet era. Besides the relatively extensive export activities, Rosneft participates in several foreign upstream ventures (see Tables 19 and 20).

Table 19 Rosneft's Performance

	2001	2002	2003
Revenues, *$ mn*	2 332.5	2 678.7	1 674.7*
Crude production, *mn tonnes*	14.9	16.1	19.4
Share of Russia's total, *%*	4.3	4.2	4.6
Refined production, *mn tonnes*	7.7	8.3	8.6
Proven reserves, *mn barrels*	…	2 200	2 400
Crude exports, *mn tonnes*	…	…	…

* 1H03

In Kazakhstan, Rosneft co-operates with KazMunaiGaz on the Caspian Sea shelf, including the production on the major Kurmangazy field. Additional oil production activities in the country are carried out at the Adavsky block.

[13] The collapse of the deal is likely to trace to political pressure from state authorities unwilling to bless the deal under the current circumstances, having produced one of the leading oil companies in the world.

[14] In April 2004, the governmental authorities reportedly showed a green light to the plans of French TotalFinaElf, to acquire a 25%-stake in Sibneft. The deal has, however, not been confirmed, and its completion is likely to take months, if not years.

Table 20 Rosneft's Foreign Ventures and Projects

Country	Rosneft's share in the project, %
Kazakhstan	
Oil and gas production at Kurmanagazy and Adaysky fields	50
Algeria	
Development of 245-Yuzhnyy block together with Stroytransgaz	50
Columbia	
Oil production at Suroriente field	45
Afghanistan	
Reconstruction of the country's oil and gas industry, oil products' supply contract	n.d.

In June 2001, Rosneft signed a contract with Colombia's state oil company, Ecopetrol, and two other Colombian companies to launch oil extraction at a block in southern Colombia, expected to hold the oil reserves of some 100 million barrels. The project further includes building of delivery and refining stations together with an oil pipeline between Columbia and Ecuador. In Algeria, Rosneft-Strojtransgaz-consortium has signed a contract with an Algerian state-owned oil and gas company, Sonatrak, on the development and exploration of an oil block.

In August 2002, Rosneft together with a Russian gas company, Itera, signed a protocol with the Mining and Industry Ministry of Afghanistan, on restructuring and developing the country's oil and gas industry. Few months later, an Afghan-Rosneft partnership was launched, for Russian supplies of oil products to Afghanistan.

In October 2002, Rosneft signed a letter of intent to form a joint venture with Marathon Oil, the fourth largest US oil corporation. The venture would combine the companies' production assets in north of Russia. Moreover, the venture is intended to support the establishment of stronger foothold for the Urals crude in the US market.

To sum up, Rosneft is one of the Russian government's oil arms overseas. The nature of the projects often encompasses the tendency of the Russian government, to implement its foreign policy through Rosneft.

Slavneft is equally owned by Sibneft and TNK-BP consortium. The TNK-BP owners, Alfa Group and Access Renova (AAR), together with Russian Sibneft, acquired Slavneft in the end

of 2002. The 50%-share of AAR was transferred to TNK-BP in the beginning of 2004, for the price of $ 1.4 billion. At the time of writing this report, the split of Slavneft's assets between TNK-BP and Sibneft is still underway.

Table 21 Slavneft's Performance

	2001	2002	2003
Revenues, *$ mn*	…	…	…
Crude production, *mn tonnes*	13.5	14.7	18.1
Share of Russia's total, *%*	3.9	3.9	4.3
Refined production, *mn tonnes*	…	…	
Proven reserves, *mn barrels*	…	…	1 600
Crude exports, *mn tonnes*	…	…	…

Slavneft ranks among the top 10 exporters in Russia. Around a half of the company's crude production is being exported. The CIS remains an important target market for Slavneft's foreign sales. Besides its export activities, the company has an interest in the Mozyr refinery in Belarus. Slavneft has been screening the possibilities for participating in projects in Iran, where it has already been involved in maintaining oil wells.

Tatneft, a Tatarstan-based oil company, possesses considerable domestic oil reserves ranking the fifth in Russia. Although the company runs some ventures abroad, its international activities mainly rely on exports.

Table 22 Tatneft's Performance

	2001	2002	2003
Revenues, *$ mn*	…	…	5 210*
Crude production, *mn tonnes*	24.6	24.6	24.7
Share of Russia's total, *%*	7.1	6.5	5.9
Refined production, *mn tonnes*	7.3	8.5	
Proven reserves, *mn barrels*	…	6 120	5 967
Crude exports, *mn tonnes*	…	…	…

*Estimated

In 2002, the company's exports of crude and refined products totalled some $ 2.4 billion. Two thirds of the company's earnings came from exports. In order to co-ordinate its export activities Tatneft has established sales units in Ukraine and Western Europe.

In February 2004, Tatneft-lead consortium gained an approval from the Turkish government to acquire a 66%-stake in Turkey's largest refining and petrochemical holding, Tupras, for $

1.3 billion[15]. An estimated $ 700-million investment into restructuring of Tupras refineries during the next couple of years has additionally been planned. Tupras controls 87% of Turkey's refining capacity. Since Tatneft's oil production has, however, grown only modestly during the past few years, any remarkable operational benefits from the acquisition remain dubious. Apart from Tupras, Tatneft has further shown an interest in participating in privatisation of another company in the country, Turkish Petkim.

In Iraq, Tatneft has a representative office and the company possesses two drilling contracts in the country. Interrupted by the war in Iraq and the UN sanctions, Tatneft intends to revive its production activities in the country. The company has additionally held several preliminary discussions with local authorities for starting exploration activities in Mongolia and Iran, as well as technical co-operation projects in China. In Syria, Tatneft is reportedly planning a $ 27-million investment in an oil deposit development project, over which the company had won a tender in 2003.

In the beginning of 2004, Tatneft opened a representative office in Libya, reportedly being the first Russian company to establish presence in the country. The competition over Libya's large reserve base emerges increasingly fierce, with several Western oil majors interested in gaining a stake in the country's upstream activities. Among the Russian oil companies, Lukoil seems to have the best prospects for its activities in Libya due to the company's stronger expertise in foreign upstream projects.

In Ukraine, Tatneft runs Ukrtatnafta company based at the Kremenchug oil refinery. Tatarstan shareholders have control over 56% of the Ukrainian facility's equity, with Tatneft's direct ownership of the venture amounting to some 9%. In the beginning of 2004, the Ukrainian State Property Fund announced further plans of selling its reminding share of 43% in Ukrtatnafta.

Though large in reserves, Tatneft is still a relatively small actor in international comparison. The firm's recent international initiatives have somewhat increased the company's presence overseas, and can be considered as a step to the right direction. The profitability of Tatneft's

[15] The acquisition process has been repeatedly dragged on due to various disagreements with the Turkish government and Tupras' interest groups.

foreign ventures, however, remains relatively weak, leaving the company more with the role of a regional player than a competitive international actor.

Bashneft, a subsidiary of the Bashkir Fuel Company, is among the top ten oil companies in Russia and the largest enterprise in the Bashkiria region. In 2003, the company accounted for some 3% of Russian oil production, equalling to 12 million tonnes. Bashneft's share in Russia's total production is constantly dropping. Bashneft exports a third of its production. During the past few years, the company has been able to increase its foreign sales by few percent a year.

In the end of 2001, Bashneft reached an agreement with local oil companies, to develop two oil deposits in Kazakhstan, located not far away from Bashkiria. Despite its growing exports, Bashneft's future does not look too promising, since the company's reserve base consists mostly of older and depleted wells.

Table 23 Some Foreign Operations of the Russia's Largest Oil Companies

Company	Operations	Markets
Lukoil	Exploration	Colombia, Iraq (on hold)
	Oil production	Azerbaijan, Egypt, Kazakhstan
	Oil refining	Bulgaria, Romania, Ukraine
	Petroleum retailing	Baltic States, CEE, CIS, Cyprus, Turkey, USA
	International holding companies	Germany, UK
	Motor oil production (forthcoming)	Ukraine
	Oil exports	Various countries
Yukos	Oil exploration	Kazakhstan
	Oil refinery	Lithuania
	Pipeline operator	Slovakia
	Marketing	Latvia, UK, USA
	Oil exports	Various countries
TNK-BP	Oil refining, petroleum retailing	Ukraine
	Oil exports	Various countries
Surgutneftegaz	Oil exports	Various countries
Rosneft	Oil field development	Algeria
	Oil production	Columbia, Kazakhstan
	Oil&gas infrastructure restructuring	Afghanistan
	Oil exports	Various countries
Sibneft	Oil exports	Various countries
Tatneft	Oil production	Iraq (on hold)
	Oil refinery	Ukraine
	Oil exports	Various countries
Slavneft	Oil refinery	Belarus
	Oil exports	Various countries
Bashneft	Oil exploration	Kazakhstan
	Oil exports	Various countries

The biggest Russian oil companies are the most active Russian firms abroad. What is characteristic to these companies is that, in several cases, the internationalisation is the main vehicle of growth and the companies are constantly seeking more attractive production outlets and market positions abroad. The oil sector can thus be regarded as the most transnational one among the Russian industries.

The international tendencies of the Russian oil companies comprise various patterns of internationalisation, from aggressive expansion and market seeking approach to more moderate resource-seeking activities. Due to the strategic nature of and strong international demand for oil, the most common scheme of internationalisation for the companies in the

industry is exporting. Many of the companies are, nevertheless, additionally engaged in some form of export supporting activities, if not in more demanding internationalisation processes.

Depending on the ownership structure, various motives can be found behind the internationalisation of the oil companies. The three leading firms, Lukoil, Yukos and TNK-BP, are all privately owned companies, practicing more aggressive internationalisation strategy, and seeking to ensure efficient distribution and export channels for their production. Especially Lukoil and Yukos have recently established considerable international presence through their acquisitions of retailing and refining assets. Fuelled by the high international oil prices, these companies are undoubtedly among the leading Russian companies in the international sphere.

The regional players include the companies such as Tatneft and Bashneft, partially controlled by, and strongly connected to, their regional entities and authorities. These companies are most probably to remain mainly domestic players, fulfilling their role on the regional level.

Rosneft, a Russian government's arm overseas, represents still another type of an actor in the oil industry. The company's international projects are closely connected to the political ambitions of the government and its foreign activities are often based on intergovernmental agreements. The company has, nevertheless, established strong foreign (political) presence and it is most probably to expand its foreign activities. Furthermore, Rosneft is engaged in several major domestic exploration projects, cooperating either with the private domestic or international oil majors, and hence, often fulfilling the task of a governmental 'watchdog' in the projects.

Sibneft is regarded as one of the most dynamic firms in the Russian oil industry, having recently presented the production growth figures unchallenged by any other company. Although only modestly engaged in international activities, the company has constantly attracted the interest of foreign investors with ongoing speculations on its sale to a foreign oil major. Recent clashes with the governmental bodies have further raised the concerns of possible transferring of the company's assets abroad and the possibility of the owners 'cashing out' by selling the company to a foreign investor.

Gazprom is the world's largest natural gas producer. The corporation possesses roughly a third of the globe's entire natural gas reserves and employs more than 300 000 workers. Covering over 80% of Russia's total gas production, Gazprom accounts for at least 8% of the Russian GDP and provides a fifth of the federal budget revenues. Although still heavily undervalued due to its relatively inefficient structure and government-boundedness, Gazprom is the leading Russian company in terms of market capitalisation ($ 38 billion in June 2004).

Gazprom is the world's largest natural gas exporter. In 2003, the company exported over 180 billion cubic metres of gas to 27 countries. The value of the company's exports amounted to $ 13 billion in 2002. The gas giant alone covers some 15% of Russia's total exports and over 80% of Russia's entire gas exports.

Table 24 Gazprom's Performance

	2001	2002	2003
Revenues, *$ mn*	…	19 170	26 452
Gas production, *bn cubic meters*	512.0	521.9	540.0
Share of the world's total, *%*	20.5	20.6	20.8
Gas processing and refining,** *bn cubic meters*	35	34	34
Gas reserves, *bn cubic meters*	…	…	28 200*
Gas exports, *bn cubic meters*	166.6	172.0	182.0
- *Former Soviet Union (FSU)*	39.6	43.0	45.0
- *Other Europe*	127.0	129.0	137.0

** equals 16 020 tons of oil equivalent (toe)*
*** excluding refining of oil and gas condensate, 10 mn tonnes in 2003*

Whereas there is a strong dependency on Gazprom's supplies in practically every European and CIS country, the company itself is equally dependent on its export revenues. The difference in the domestic and export price of natural gas remains multifold despite the increasing pressure from the EU, to raise the domestic gas price in Russia. Although over two thirds of the Gazprom's production is supplied domestically, the domestic incomes account for only a quarter of the company's annual revenues. In terms of exports, the most lucrative market for Gazprom is undoubtedly Western Europe, whereas the subsidised FSU exports generate considerably lower revenues.

Although practically all the ex-Soviet republics are crucially dependent on Gazprom's gas supplies, they only account for less than a quarter of Gazprom's total exports, and only 6% of its total revenues. Over 80% of the Gazprom's exports goes to the new EU25, generating three quarters of the company's cash inflow. Germany, Italy, France and Poland are the main destinations among the EU member states. Moreover, taking into account that almost 40% of the gas consumed in Europe is supplied by Russia, the mutual strategic dependency becomes obvious. The enlarged EU is a strategic market for Gazprom, and vice versa, Gazprom is a strategically important partner for the energy companies in the enlarged EU.

Gazprom has some 60 subsidiaries worldwide. In addition, the company participates in authorised capital of over 100 Russian and foreign companies. Gazprom has equity investments in at least 20 countries including eight old EU member states and all the new EU member countries of CEE but the Czech Republic and Slovenia. Besides the enlarged EU, Gazprom has investments in several CIS countries, including Belarus, Moldova, and Ukraine.

Apart from its strong presence in the CIS and the EU, Gazprom has investments in Turkey and Serbia-Montenegro. In autumn 2002, the company announced further plans to expand its operations in Latin America.

Through the privatisation of the gas industries in ex-CMEA countries, Gazprom has acquired several local or regional gas distribution companies. The latest additions will likely be witnessed in Romania, where Gazprom has issued a bid for 51% of the shares in two local gas distribution companies, Distrigaz Nord and Distrigaz Sud, together accounting for over 90% of gas supplied to the end users in Romania. Although it remains an impossible task for the researchers, to identify all the Gazprom's foreign investment projects, an overview of some of the company's foreign operations is provided in Table 25.

Table 25 Gazprom's Foreign Subsidiary Companies and Joint Ventures[16]

Country	Company	Activities	Gazprom's stake, %
Armenia	ZAO Armrosgazprom	Sale of gas	45
Austria	GHW	Gas trading	50
Bulgaria	AO Overgaz Inc.	Sale of gas	50
Cyprus	Leadville Investments Ltd	Investing	100
Estonia	Eesti Gaas	Gas transportation and sale	31
Finland	AO Gazum	Sale of gas	25
France	AO Fragaz	Gas distribution	50
Germany	ZMB	Gas distribution	100
	ZGG	Gas production and sale	100
	WIEH	Gas distribution	50
Hungary	AO Panrusgaz	Sale of gas	31
	BorsodChem	Petrochemicals	25
Italy	Promgaz S.P.A	Gas distribution	50
Kazakhstan	ZAO KazRosGaz	Gas transportation and sale	38
Latvia	OAO Latvijas Gaze	Gas transportation and sale	25
Lithuania	ZAO Stella Vitae	Gas transportation and sale	30
	Lietuvos Dujos	Gas distribution	34
Moldova	AO Moldovagaz	Gas transportation and sale	50
Netherlands	Gazprom Finance B.V.	Investing	100
	Blue Stream Pipeline Co BV	Construction and gas transportation	50
Poland	EuRoPol Gaz s.a.	Gas transportation and sale	48
Romania	WIEE	Gas distribution	50
Serbia-Montenegro	Progresgaz Trading Ltd	Gas distribution	25
Slovakia	AO Slovrusgaz	Sale of gas	50
Turkey	AO Turusgaz	Sale of gas	45
United Kingdom	Gazprom UK Ltd	Investing, banking	100
	Gazprom UK Trading Ltd	Gas distribution	100

Gazprom's strategy indicates the tendency of establishing strong presence in all the ex-CMEA countries the company sells gas to. The position of a dominating gas supplier, accompanied with the ownership of the gas distribution network, gives Gazprom significant political and economic leverage in the target countries. Considering the political dimension of Gazprom's foreign expansion, Russia hence holds a remarkable control over the gas sectors of practically all the CIS countries.

Similarly, Gazprom's investment strategy outside Russia often incorporates supporting activities for the corporation's exports, improving its position on the Western European gas markets. Selling gas to the companies where it owns a stake, Gazprom is entitled to the revenues both directly and indirectly. Here, the question of transfer pricing arises, since the valuation of the gas supplies to the company's subsidiaries affects the competitive situation on the target markets.

[16] The list is based on the company information. Somewhat differing overview is presented by UNCTAD (2001).

Gazprom's successful internationalisation strategy includes establishing a strong downstream presence. The latest acquisitions include a 34%-stake in Lithuanian gas distributor Lietuvos Dujos and a 40%-stake in Turkish gas company Bosporus Gas. The European acquisitions are likely to be accompanied by those in China, probably the most promising future market for the Russian energy supplies. Gazprom has held negotiations on buying a stake in China Gas Holdings, an affiliate of the state-owned Petro China. The companies have already signed the contract for joint development of urban gas distribution networks in China.

Gazprom operates on several major international pipeline projects in co-operation with Western oil majors. One of the most interesting ones, regarding the future of the EU-Russian energy co-operation, is the projected NEG pipeline, enabling large-scale deliveries of Russian gas to Europe under the Baltic Sea. The European Commission has set the project as one of the highest priorities for the development of the energy sector. Due to its gigantic nature, the project will, however, be a subject for the long-term planning and negotiation procedures, with the actual realisation possible around 2010.

Table 26 Gazprom's Major Transnational Pipeline Projects

Project	Main outlines	Other parties involved	Gazprom's share, %
West-East Pipeline	A projected 4000 km Trans-Chinese pipeline	Royal Ducth/Shell, ExxonMobil, PetroChina, Sinopec	15
The Blue Stream	1200 km Russia-Turkey gas pipeline under the Black Sea (16 bn cubic meters/annum)	ENI	50
North European Gas Pipeline (NEG)	A projected gas pipeline under the Baltic Sea from Vyborg to Germany (20 bn cubic meters/annum)	High interest shown by European Commission and several leading oil&gas companies	n.d.
Interconnector Pipeline	A pipeline linking Belgium and the UK (20 bn cubic meters/annum)	Several operators, each with predefined supply quotas	10

Gazprom's investments in the enlarged European Union prove that the Russian corporations may benefit directly from the enlargement even if Russia is not a member of this union. On the other hand, Gazprom's investments in these European gas companies strengthen the

predictability of the energy supplies from Russia. All in all, the Russian investments in expanding Europe bring Russia closer to the EU.

During the recent years, the role of independent producers in Russian gas industry has increased. The Russian Energy Strategy until 2020 emphasises the further growing role of independent gas suppliers. For now, the main questions remain on the issues of access to the Gazprom's pipeline system and partial restructuring of the gas giant, both of which would cause considerable changes in the structure of Russian gas industry.

Itera is the largest private producer of natural gas in Russia. Itera holding company has its headquarters in the USA but it can nevertheless be regarded as a Russian firm, whose owners and management board are closely related to Gazprom's former directors and shareholders. Itera group employs some 8000 people.

The company receives approximately 80% of its revenues from the production, transportation, and marketing of natural gas. Itera has emerged as the major supplier to the CIS and the Baltic States, being the largest independent producer and supplier of natural gas in the region. Itera controls the world's fourth largest natural gas reserves.

Table 27 Itera's Performance

	2001	2002	2003
Revenues, *$ mn*	…	…	…
Gas production, *bn cubic meters*	23.0	23.2	33.4
Share of the world's total, *%*	0.9	0.9	1.3
Gas reserves, *bn cubic meters*	…	…	1 170
Gas exports, *bn cubic meters*	…	…	…

Itera Group has founded several units abroad. All in all, the group comprises roughly 130 companies in Russia, the CIS (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkmenistan, and Ukraine), all the Baltic States, Cyprus, the Netherlands, Switzerland and the USA. Itera is a participating in several gas pipeline-building projects in the CIS region and controls natural gas grids in Armenia, Estonia, Georgia and Latvia. Table 28 provides an overview of Itera's foreign activities.

Table 28 Itera's Foreign Operations and Ventures

Country	Company / Venture	Activities	Itera's stake, %
USA	Itera International Energy Corporation	Headquarters of Itera Group	100
Armenia	Armrosgazprom	Gas distribution	10
Belarus	Itera-PET	Plastic manufacturing	100
	Belpak	Production of PET granules	n.d.
Estonia	Eesti Gaas	Natural gas operator	10
Georgia	Azot	Production of fertilisers	n.d.
	11 gas distribution firms	Gas distribution	majority stake
Latvia	Itera Latvia	Gas delivery and marketing	100
	Latvijas Gaze	Natural gas operator	n.d.
Moldova	Moldovian Metal Works	Metallurgic production	75
	Moldkarton	Cardboard manufacturing	majority stake
Turkmenistan	Joint venture with Rosneft and Zarubezhneft	Oil and gas field development	n.d.
Uzbekistan	Gazli-Kagan	Gas pipeline reconstruction	n.d.

5.2 Electricity

Russia's electrical energy sector practically remains under control of a single holding, United Energy Systems of Russia (RAO UES), comprising nine regional energy producers. 53% of the consortium, executing the natural monopoly power in the sector, is owned by the Russian state. Around 30% of the UES' shares are in the hands of foreign entities with mere 10% owned by the individual domestic investors. The electricity giant employs some 650 000 people and is indisputably one of the country's most influential consortiums.

In order to reduce the energy intensity of the Russian industry and rationalise the energy markets in the country, Russian authorities have prepared the energy strategy for Russia until 2020, in which the question of UES' restructuring has been high on the agenda. Although the energy strategy implies the energy price liberalisation (to some extent) and the restructuring of the UES by creating separate wholesale energy generating companies, the actual decision-making and implementing process might take years to complete.

Table 29 UES' Electricity Sales and Exports, *$ mln*

	2000	2001	2002
Sales, *$ mln*	1 327.3	1 584.0	1 743.6
Exports, *$ mln*	212.3	254.1	292.8
CIS Countries	*141.4*	*121.9*	*117.5*
Finland	*61.8*	*112.6*	*141.3*
*Other non-CIS Countries**	*9.0*	*19.6*	*34.0*

* China, Estonia, Latvia, Mongolia, Norway, Poland, Turkey

Although Russia has traditionally been a major electricity supplier to the former USSR, this tendency is clearly changing. In electricity exports, the role of the CIS countries has notably diminished during the past years, whereas the exports to other countries, especially to Finland, have simultaneously grown at a rapid pace. The non-CIS exports already represent over a third of UES' total exports. The reason behind the shift in the export structure can be explained by the substantially higher profit margins of the non-CIS exports. Additionally, to ensure their energy security, the CIS countries are struggling to decrease their dependency of Russia and are heavily supporting their own energy production.

Taking into account the considerable idle capacity of UES, the electricity exports can be regarded as one of the company's most promising business development areas. Scandinavia is likely to strengthen its position as the most strategic market for UES' foreign electricity supplies. In order to facilitate its exports, the company has already set up trading companies and export units in the region.

Apart from the electricity exports, UES has shown increasing interest in acquiring foreign energy assets. The consortium has its holdings in several CIS countries, including mainly energy distribution networks and power stations. In Georgia, UES recently took over several energy facilities from a US company AES Corporation, in a $ 23-million deal. With the multimillion-dollar investments in Armenian energy sector, UES is to update the Sevan-Radzan cascade and integrate the country's energy system into that of its neighbouring countries. UES has further expressed its interest in participating in the privatisation of Turkey's energy distribution network. The ultimate objective of UES' foreign operations is likely to comprise integrating the separate electricity networks into a synchronised system, over which the company would have a considerable control. Investing heavily in the CIS region, UES is increasingly gaining a foothold on these nations' electricity markets, a fact that has raised concerns over the energy security in the host countries (see Table 30).

In addition to its current assets, the company's recent plans include participating in privatisations of several power supply units in Estonia, Latvia, and Lithuania. Relating also to the UES' interest in the Baltic assets, the company has announced its long-term vision of synchronising the energy systems of the Baltics, the CIS, and Russia.

Table 30 **Some Foreign Ventures of UES**

Country/ Company	Activities	UES' stake, %
Armenia	Integrating the country's energy system into that of Russia and other CIS countries	100
Sevan-Razdan	Updating the cascade and power plant	
Georgia		
AES Telasi	Energy distribution in Tbilisi	75
AES Mtkvari	Energy supplies to Tbilisi	75
Ukraine		
Inter RAO UES	Trading company	100
Moldova	Trading company	100
Finland (Scandinavia)		
RAO Nordic	Trading company	100

The energy sector remains the Russia's most transnational industrial branch and several of its companies rank among the world's leading firms in the sector. An overview of the internationalisation of Russian energy-related companies is provided in Table 31.

Table 31 Internationalisation of the Russian Energy-Related Companies

Observation	Reason	Target area
Oil and gas companies dominate internationalisation of Russian firms	Considerably higher prices and high demand for energy overseas → remarkable financial resources for outward expansion	Worldwide
Russia's most transnational industry	Faster growth and good financial position can only be achieved through international activities → Russia's leading oil companies are already comparable with the world's oil majors in terms of their reserves and production	Worldwide
Russian firms are significant energy exporters to Europe and the CIS	*Oil*: Russia supplies a quarter of the EU's oil imports. Russia is one of the most stable suppliers to the union, given the unrest in the Middle-East *Gas*: Russia provides 40% of the EU's gas imports and the lion's share of the CIS gas imports, giving Russia a strong political leverage particularly in the CIS	CEE, CIS, EU
Major investments in upstream activities overseas	Resource-rich sites of ex-USSR, North Africa and the Middle-East provide cost-efficient investment opportunities → extending the resource base of the Russian oil companies	Columbia Egypt, Iraq, Kazakhstan, Libya, Venezuela
Considerable investments in logistical units abroad, e.g. oil pipelines, seaports	Aim at building own transportation infrastructure to secure the deliveries and minimise costs	CIS, EU, USA
Heavy investments in foreign refining and distribution	Shift from a mere raw-material provider to a more sophisticated producer → increasing interest towards the greater value-added production and building of wide distribution network Insufficient and deteriorated domestic refining capacity → refining activities are redeployed near the end markets → maximising the cost-efficiency of oil transports	CEE, CIS, USA
Increasing interest towards the majority ownership in foreign units	*Oil*: Increasing international experience of Russia's oil majors → search for greater control over their assets and operations abroad *Gas*: Political considerations are heavily present in Gazprom's outward expansion → the majority ownership in local gas firms provides Gazprom with a means to gain political leverage in host countries	Worldwide Especially CEE and CIS
Political resistance in the host countries towards Russian ownership in the energy sector	Fear of giving Russian firms control over the strategic energy sector (the history-based concerns)	Especially CEE and CIS
Foreign acquisitions of Russia's main electricity producer are often coloured with political considerations	Low-profit acquisitions and search for control in the electricity sector in the CIS imply stronger emphasis on the political rather than purely business considerations	Mainly CIS
Internationalisation of the Russian energy companies dominantly guided by the political decisions and intergovernmental agreements	Lack of and obstacles to transnational interfirm co-operation; exports and international projects often result from governmental agreements, not from the contracts between individual firms	Worldwide

5.3 Non-ferrous metallurgy and precious stones

Russia ranks as the world's third biggest producer of aluminium after China and the USA. Russia produces some 3.4 million tonnes of aluminium annually, being responsible for over a tenth of the world's total output. Russia only consumes a quarter of her aluminium production, leaving three quarters for the exports.

Russky Aljumini (RusAl) is the second largest aluminium company in the world after the US company Alcoa. RusAl produces some 75% of Russia's and 10% of the world's aluminium. The company ranks among the 10 biggest corporations in Russia.

The corporation sells a considerable proportion of its output abroad. RusAl exports 75% of its primary aluminium and almost 10% of its fabricated aluminium. The company exports its production to over 30 countries worldwide, its foreign sales being responsible for 80% of the total sales ($ 4 billion). Europe is the largest market for RusAl, accounting for almost a 60%-share of the company's exports, followed by Asia accounting for over 30% and the USA for the remaining 10%. In order to facilitate its exports, RusAl has founded representative offices in China, Germany, the UK, and the USA.

Table 32 Some Foreign Operations of Russky Aljumini

Country	Company	Activities	Stake, %
Armenia	Rusal Armenal	Foil mill	100
China	RusAl	Representative office	100
Germany	RusAl	Representative office	100
Guinea	CBK	Bauxite mining complex	100
	Aluminia Company of Guinea	Aluminium production	>50
Jamaica (auction bid)	Alpart	Bauxite mining and concentrating	~65
Romania	Cemtrade	Aluminium refining	n.d.
Ukraine	Nikolayev Alumina Refinery	Aluminium refining	100
United Kingdom	RusAl	Representative office	100
USA	RusAl	Representative office	100

RusAl's internationalisation does not only comprise exports and representative offices, but the company also runs various production operations overseas. The corporation's bauxite deficit within Russia has been the major factor that has pushed the company overseas.

In Guinea, the company manages a bauxite mining complex, Compagnie des Bauxites de Kindia. The bauxite is used in production process of Aluminia Company of Guinea Ltd, in which RusAl additionally owns a majority stake. According to the non-confirmed information, RusAl investments in the country total an impressive $ 2 billion. In April 2004, RusAl further submitted an auction bid for a majority share in a Jamaican bauxite mining company, Alpart, previously controlled by the bankrupt Kaiser Aluminium. The share to be sold is estimated to value some $ 150-200 million.

RusAl owns the Oradea aluminium refinery in Romania and the Nikolayev aluminium refinery in Ukraine. The company also holds a 74%-stake in the Armenal foil mill in Armenia. Investments into the plant total at least $ 20 million.

Besides the ex-CMEA, RusAl participates in Atlantsal venture conducting an environmental impact study on a 360 000-tonne smelter and a 2-million tonne aluminium refinery in Iceland. After finishing the feasibility and environmental impact study, the project is due to be launched during 2004.

Siberian-Urals Aluminium Holding (SUAL) is the second largest aluminium producer in Russia and holds the seventh position in worldwide comparison. The company's annual revenues amounted to $ 1.3 billion in 2002. Almost 80% of the company's products were sold abroad. The corporation exported to 40 countries, with European countries accounting for over a half of the total exports. To facilitate its exports, SUAL operates sales and marketing companies in Switzerland and the USA.

In 2003, SUAL finished the affiliation of SevZapProm assets. SevZapProm acted as the management company for Volgograd Aluminium, Pikalevo Alumina and Volkhov Aluminium. The first of this troika also ranked among the top 50 exporters in Russia in 2001.

In 2003, SUAL's main shareholders (Access Industries/Renova) signed an agreement with Fleming Family & Partners for creating SUAL International, combining SUAL's current aluminium operations with the assets contributed by the international investor groups.

The Russian aluminium industry is thus dominated by the two giants, Russky Aljumini and Siberian-Urals Aluminium Holding, the former controlling some 75% and the latter some

25% of the Russian aluminium market. Aluminium plants not belonging to these two groups are in a marginal position. Most probably, all the independent producers will eventually be succumbed to either of these groups. The heavy development and involvement of an international group of investors in SUAL, however, indicates that RusAl will not be granted a monopoly position on the market.

Norilsk Nickel is the Russia's largest mining company and the most significant conglomerate in non-ferrous metallurgy, possessing substantial metallurgical reserves in worldwide comparison. Norilsk Nickel holds 5.9 million tonnes of nickel, 14.1 million tonnes of copper, 0.1 million tonnes of cobalt, 67 million ounces of platinum, and 111 million ounces of palladium reserves. In terms of market capitalisation, the company clearly holds the leading position in the Russian metallurgical sector with its market capitalisation exceeding $ 15 billion in the beginning of 2004.

Norilsk Nickel is the world's largest producer of nickel and palladium. Its market share is around 60% of palladium, 20% of platinum, 20% of nickel, 10% of cobalt, and 3% of copper production worldwide. The corporation produces over 55% of the copper and 95% of the nickel and cobalt in Russia, accounting for almost 3% of the Russia’s industrial production.

Platinum group metals (PGM) cover nearly a half, nickel a third and copper over a tenth of the firm's sales. In 2003, the corporation’s export revenues increased by 92%, totalling $ 4.2 billion. The exports accounted over 90% of company’s sales. The company’s strategy has also included strengthening of its position in gold production, since the international gold prices tend to be relatively stable in nature, compared to the more sensitive prices of PGM, nickel, and copper.

By its recent acquisitions, Norilsk Nickel has taken over the position of the leading domestic gold miner and has entered the group of the 10 largest gold producers in worldwide comparison. In October 2002, Norilsk Nickel acquired the Russia's largest gold miner, Polyus, whose gold sales amount to 16 tonnes, or some 10-15% of the Russian total. Along with the acquisition, Norilsk Nickel announced its plans to make gold production the company’s third largest revenue generator after palladium and nickel. Norilsk Nickel accounts for 1.5% of the world’s total gold production.

In March 2004, Norilsk Nickel announced thus far the largest single foreign investment made by a Russian company, acquiring a 20%-stake in one of the world's largest gold producers, Gold Fields Limited, which operates in five continents. The $ 1.2-billion deal made Norilsk Nickel the largest single owner in Gold Fields, further strengthening the position of the company as one of the leading international metallurgical corporations.

Norilsk Nickel exports the lion's share of its output, accounting for over 4% of the Russian exports. In 2002, only 4% of its nickel and 18% of its copper was sold on the domestic market. The company's exports are carried out through its London-based metal trading unit, Norimet Ltd. In order to facilitate its exports, the company has additionally founded units overseas, including the representative offices in Switzerland, the UK, and the USA.

Table 33 Some Foreign Units and Ventures of Norilsk Nickel

Country	Company	Activities	Share, %
Belgium	Norgem	Sales of cobalt products	51
South Africa	Gold Fields Limited	Gold production	20
Switzerland	Representative office	Sales and marketing	100
United Kingdom	Norimet Limited	Foreign sales of nickel, copper and palladium products	100
USA	Representative office	Sales and marketing	100
	Stillwater Mining	PGM production	56

Since April 2000, Norimet Ltd, a metal trading company based in London, has been a wholly owned subsidiary of Norilsk Nickel. In the same year, a joint venture was formed between Norimet and a Belgian company Sogem, for selling Norilsk's cobalt products abroad. The joint venture, Norgem, in which Norilsk Nickel has a 51%-stake, is registered in Belgium.

In 2003, Norilsk Nickel acquired a 51%-stake in a US company, Stillwater Mining, for the price of $ 257 million. Additional acquisition of shares shortly followed, increasing the ownership of Norilsk to 56%. Stillwater Mining is the sole producer of PGM in the USA and the fifth largest producer in the world. The acquisition most probably further strengthens the position of Norilsk Nickel on the world's largest PGM market.

Urals Mining and Metallurgical Company (UGMK) was formed in 1999 as a union of Ural region upstream and downstream copper producers. UGMK unites 20 enterprises with about 71 000 employees in eight regions of Russia. In 2002, the company's sales totalled $ 1.1 billion with the exports amounting for a third of its total sales. The consolidation plans of UGMK's members via common shares have been underway for several years, but their

realisation will hardly be witnessed in the near future due to numerous internal managerial and operational difficulties.

Metalloinvest's structure includes several ore mining enterprises and metal ware producers. The holding ranks among the top 30 exporters in Russia, producing almost a third of Russia's iron ore. The company employs almost 30 000 workers and runs an annual turnover of some $ 550 million, hereby ranking among the 50 biggest corporations in Russia. Metalloinvest is engaged in a variety of business segments, ranging from machine building to production of technical rubber. The company exports the majority of its production, being one of the leading Russian exporters when measured in the number of target markets.

VSMPO-Avisma is an Ural-based metal company producing titanium and magnesium and related products. The company is the world's leading producer of titanium sponge with over a 30%-market share. The company additionally accounts for 5% of the world's pure magnesium output. VSMPO-Avisma is one of the fastest growing large Russian enterprises, whose market capitalisation has 5-folded during the past year.

The net sales of VSMPO-Avisma amounted to $ 395 million in 2003 with the majority of production being sold overseas. The company's foreign sales exceeded $ 250 million and the firm exported its goods to over 30 countries. The biggest export market for the company's products is the USA, accounting for three quarters of its magnesium and almost 40% of the company's titanium exports.

VSMPO-Avisma group has established fully-owned trading and marketing subsidiaries in the Germany, UK, and the USA. Through its subsidiary, US Tirus, VSMPO-Avisma controls a 50%-stake in the largest US speciality metals producer, UniTi and 100% of an US titanium rolling mill, National Forge & Machining.

Alrosa is one of the world's leading diamond mining companies responsible for almost 25% of the world's raw diamond production and practically for all the diamond production in Russia. The company further has the monopoly in rough diamond exports. In 2003, the company's sales amounted to $ 1.8 billion.

Although Alrosa's Russian units cover the majority of the corporation's diamond output, the company has a 33%-stake in a joint venture in the Catoka diamond mine in Angola. The mine

became operational in 1997 and its annual diamond production is valued to some $ 200 million. Alrosa has expressed further interest in expanding its operations to other African countries. The company exports two thirds of its domestic production. To support its foreign sales, Alrosa has established several representative offices and trading companies overseas (see Table 34).

Table 34 Alrosa's Foreign Ventures and Units

Country	Company	Activities	Stake, %
Angola	Catoka Mining Company	Diamond mining	33
	Alrosa Co. Ltd	Sales and marketing	100
Belgium	Arcos Belgium	Sales and marketing	100
Israel	Alrosa Co. Ltd	Sales and marketing	100
United Kingdom	Arcos Limited	Sales and marketing	100

Kristall (Smolensk)[17] is a fully government-owned company and the Russia's largest diamond manufacturer with sales of $ 245 million in 2002. The company exports practically all of its output. Kristall sells its production to some 10 countries worldwide and has representative offices in Antwerp, Hong Kong, London, Los Angeles, New York and Tel Aviv.

The Hong Kong representative office, Smolensk Diamonds Asia Ltd, is planning to set up a joint venture with a Chinese company, Brilliant Trading, owning five lapidary mills in China. In the venture, Kristall is due to have a 51%-stake.

The combined value of the aforementioned metallurgical and mining companies' exports reached almost $ 10 billion in 2003 i.e. they account for some 8% of Russia's total exports. Most of the companies have founded marketing units abroad and several of them are already engaged in more demanding foreign business activities. The geographical diversification of the international assets of Russian metallurgical companies somewhat reflects that of the oil majors, with the exploration and production sites being located in resource-rich African countries and the refining activities being concentrated in Eastern Europe. Along with their increased international presence, these enterprises are gaining global recognition, which is gradually being addressed to their market valuation.

[17] Do not confuse Kristall (Smolensk) with Cristall, a producer of Cristall vodka.

Table 35 Some Foreign Operations of Russia's Non-Ferrous Metallurgy Companies

Company	Operations	Markets
RusAl	Aluminium refining and processing Bauxite mining, aluminium production Representative offices Exports	Armenia, Romania, Ukraine Guinea China, Germany, UK, USA Various countries
SUAL	Sales and marketing Exports	Switzerland, USA Various countries
Norilsk Nickel	Sales and marketing unit PGM production, sales and marketing Gold production Exports	Belgium, Switzerland, UK USA South Africa Various countries
UGMK	Exports	Various countries
Metalloinvest	Exports	Various countries
VSMPO-Avisma	Sales and marketing, metals production Sales and marketing Exports	USA Germany, UK Various countries
Alrosa	Diamond mining company, sales and marketing Sales and marketing	Angola Belgium, Israel, UK
Kristall	Representative offices	Belgium, China, Israel, UK, USA

5.4 Ferrous metallurgy

Russia is the fourth largest steel producer in the world. The country produced close to 60 million tonnes of steel in 2002, covering some 7% of the world's total production. In iron production, Russia holds the third position in the world with a 6%-share of the world's total.

Table 36 The World's Major Steel Producing Countries and Selected Companies in 2002

Country	Production, *mn tonnes*	Company	Rank	Production, *mn tonnes*
China	181.6	Arcelor	1	44.0
Japan	107.7	LNM Group	2	34.8
USA	92.2	Nippon Steel	3	29.8
Russia	**59.8**	**Magnitogorsk**	**16**	**11.0**
South Korea	45.4	**Severstal**	**19**	**9.6**
Germany	45.0	**Novolipetsk**	**20**	**8.6**
World total	**902.2**	**World total**		**902.2**

Source: International Iron and Steel Institute (2003).

Ferrous metallurgy is one of the most significant Russian industries. The four biggest producers - Magnitogorsk, Severstal, Novolipetsk and Evraz Holding - together account for

more than 80% of the Russian market. Russia, exporting over 40% of her steel output (26 million tonnes in 2002), is the world's second biggest steel exporter after Japan.

Table 37 Russia's Main Steel Producers

Company	Market share in Russia
Magnitogorsk Metal Kombinat	21%
Severstal	19%
Novolipetsk Metal Kombinat	16%
West-Siberian Metal Kombinat (Evraz Holding)	11%
Nizhny-Tagil Metal Kombinat (Evraz Holding)	10%
Mechel - Chelyabinsk Metal Kombinat	8%
Kuznetsk Metal Kombinat (Evraz Holding)	5%
NOSTA	6%
Oskolsk Electro-Metallurgical Kombinat	4%

Magnitogorsk Metal Kombinat (MMK) is the leader among the Russian individual steel companies, and ranks 16th among the world's largest steel producers. The company exports around 60% of its steel production and the value of its exports totalled $ 0.8 billion in 2002. MMK's exports are highly diversified in terms of export destinations. The company exports its products to over 50 countries worldwide. Almost a half of the MMK's exports end up in Central and Southern America, a quarter goes to the Middle East and some 15% to Western Europe. Reportedly, the company also has strong business ties with steel mills and companies in Canada, Finland, Italy, and the USA.

Severstal, an industrial holding group operating in mining, steel making, and automobile industry, comprises some 120 plants in 14 Russian regions. Severstal ranks among the world's top 20 steel companies. The company's exports are targeted to over 100 destinations worldwide. The company's exports account for 50% of its total sales. The main export markets are Europe (some 33%) and South-East Asia (some 20%). Severstal's foreign sales amounted to approximately $ 1.1 billion in 2003.

In the end of 2003, Severstal won the auction to buy Rouge Industries, the fifth largest steel producer in the USA, engaged in severe financial troubles. The $ 286-million acquisition would, above all, provide strategic means to circumvent the US steel import restrictions and increase the Severstal's global recognition. For managing its US assets, Severstal has established an affiliate in the country, Severstal North America Inc.

Apart from its acquisition in the USA, Severstal has made a purchase offer to buy the largest Czech steel producer, Vitkovice, re-offered for sale by the state. The value of the company is estimated at over $ 200 million and the acquisition would considerably strengthen Severstal's position on the EU market. Gaining the control over Vitkovice would further mean significant output boost for Severstal. Vitkovice's steel output in 2003 was 1 million tons and the sales totalled $ 400 million. In addition to participating in the Czech tender, Severstal is eyeing another giant target in Eastern Europe, the Ukraine's largest steel producer, Kryvorizhstal.

On the production side, Severstal has established a joint venture, Severgal, with a European group, Arcelor, for the manufacturing of hot galvanised rolled products for the European market. Severstal holds 75% of the shares in the $ 170 million-venture.

Novolipetsk Metallurgical Kombinat (NLMK) exports over 70% of its output. During the past two years, the company's sales have grown rapidly, pushing its revenues up to $ 2.4 billion in 2003. The company's exports, amounting to $ 1.7 billion, were targeted to some 90 countries worldwide. The main exports markets of NLMK are South-East Asia and Europe, representing a half of the company's total exports. In February 2004, the company started negotiations to buy two terminals at the St. Petersburg seaport. The estimated value of the deal is around $ 100 million. Currently, approximately a half of the mill's exports travel through the St. Petersburg port.

Evraz is a holding company for three giant Russian steel producers - the West-Siberian, Nizhny-Tagil, and Kuznetsk Metal Kombinats. Additional holdings of the Evraz group comprise the Kuzmin Novosibirsk metallurgical plant, Kuznetskugol and a few other ore and coal-mining enterprises. The combined output of these units covers over 25% of the Russian steel production making Evraz Holding the largest steel group in Russia. The sales of the group's two largest units, Nizhny-Tagil and West-Siberian Metal Kombinats, reached almost $ 2 billion in 2003. Evraz Holding is the fourth biggest steel exporter in Russia, exporting its products to over 40 countries. Its foreign sales amounted to over $ 1 billion in 2003.

Mechel Steel Group is a newly-formed holding, comprising a ferronickel supplier YuzhUralNickel and ore suppliers Korshunovsky GOK, Beloretsky Metal Kombinat, Vyartsilsky steel plant and Ural Forge. The group is reported to own additional assets in Eastern Europe, the nature of which the researchers were not able to identify.

The researchers were not able to find any significant foreign production units belonging to the aforementioned Russian steel producers. Reportedly, there are, however, several ongoing international projects involving Russian metal companies. In this respect, one of the most active Russian companies is Tyazhpromexport, involved in the expansion of the Pakistan Steel mill, an Indian road building project, and building of a metallurgical plant in Nigeria.

During the past years, Russian steel and iron producers have experienced strong growth and, fuelled by the growing international demand, improved their position on the world market. The combined value of the biggest steel exporters' international supplies totalled over $ 5 billion in 2003. The internationalisation of the Russian steel producers is carried out mainly via exports and their foreign marketing units, whereas, due to the country's giant metal reserves and low-priced energy, steel production mainly takes place in Russia. It is thus not very likely that the Russian steel producers will start massive outward expansion in the near future. Russian iron and steel producers' interest towards international projects and manufacturing assets is nevertheless increasing.

Furthermore, the surging profits of the Russia's major steel producers have enhanced their market value. Although still lagging behind the world leaders, the market capitalisation of MMK, Severstal and NLMK is already comparable or even superior to few of the international majors, some of which post even larger sales figures than their Russian counterparts (see Table 38).

Table 38 A Comparison of Selected Ferrous Metal Producers in 2003

Company	Country	Sales, $ mn	Market capitalisation, $ mn
Magnitogorsk MK	**Russia**	**2 956**	**3 946**
Severstal	**Russia**	**2 582**	**3 874**
Novolipetsk MK	**Russia**	**2 334**	**3 982**
Arcelor	France	32 495	9 839
Thyssen Krupp	Germany	39 048	10 005
Nippon Steel	Japan	27 293	13 424
US Steel	USA	9 328	3 250
Nucor	USA	6 266	4 416

Source: Troika Dialog (2004b).

During the past few years, the Russian metallurgical companies have altogether strengthened their international positions and considerably improved their financial positions. Although the recent growth has mainly been fuelled by the high world market prices of their commodities, the strengthened financial stances of the companies have brought along increasing interest

towards more demanding internationalisation modes than exports. The strategic acquisitions overseas by the leading Russian metallurgical companies are hence likely to become more common during the next few years (see Table 39).

Table 39 Internationalisation of the Russian Metallurgical Companies

Observation	Reason/ evidence	Target area
Exports remain the dominant mode of internationalisation. However, foreign marketing and distribution units are common	Large domestic reserves and high world prices (especially those of steel) have enhanced the international position of Russian metallurgical corporations and facilitated the export growth	Worldwide
A slight move towards more demanding foreign operational modes and value-added processes	Considerable improvements in financials and experience from operating on foreign markets enhance more active expansion abroad → Several major actors engaged in large-scale foreign takeovers	Worldwide
Strategic acquisitions in high-profile markets	Improved financial position and foreign experience → Acquisitions of US companies provide access to the restricted US steel markets In order to stabilise revenues, companies have diversified their product range, e.g. the investments in gold production	Africa, USA, Western Europe
Metallurgy: Future acquisitions are likely to include export and processing facilities	Higher control over the economically crucial exports, low-cost processing sites near to the target markets	Baltic ports, Eastern Europe
Ferrous metallurgy: No foreseeable widespread foreign production activities	Domestic availability of vast, low-priced resources (especially for steel producers)	
Non-ferrous metallurgy: Increasing engagement in foreign mining and exploration activities	Availability of low-cost, resource-rich foreign production sites → Securing the resource base	Mainly African countries

5.5 Coal mining

Russia possesses some 16% of the world's coal reserves and ranks second after the USA, possessing over 25% of the world's total coal reserves. Despite her large reserves, Russia is only the sixth largest coal producer in the world, with a 5%-stake after China (30%), the USA (24%), Australia (8%), India (7%), and South Africa (5%). In 2003, the global demand for Russian coal increased considerably fuelling over 10% export growth. Russia's total coal production amounted to 275 million tonnes, indicating a strong 8% year-on-year growth. Russia exports a fifth of her coal production, 58 tonnes in 2003, indicating some 20% year-

on-year growth. With this amount, the country is the world's third largest coal exporter after the USA and Australia. The increased demand for Russian coal on the world markets is largely caused by the high international natural gas prices, leading the companies to substitute the more expensive energy source with cheaper one.

Russia's coal exports are mainly targeted to Europe. The three largest coal exporters in 2001 were Kuzbassrazrezugol, Yakutugol, and Kusbassugol, together responsible for 50% of the Russian coal exports. In 2001, Kuzbassrazrezugol was clearly the biggest single exporter of Russian coal.

Kuzbassrazrezugol (K-ugol) is the second largest coal producer in Russia after Krasnoyarskugol. K-ugol reached an output of 36 million tonnes, with exports accounting for 35% of the output in 2001. The company exported to 24 countries and its exports totalled $ 375 million.

Though K-ugol does not have any production outside Russia, the company has a logistics unit abroad to support its exports. The firm signed a contract with the Estonian port of Muuga, according to which the port will build a coal terminal with a capacity of 5 million tonnes a year. The terminal is planned to be completed by 2005 and will cost an estimated $ 63 million. K-ugol's Estonian subsidiary, Coal Terminal, will invest over $ 20 million in a coal processing facility at the port.

Yakutugol is the eighth largest coal producer but the second most active coal exporter in Russia. Its exports totalled $ 135 million in 2001. With this amount it ranked among the 50 biggest exporters in Russia. The main destinations of Yakutugol's exports are Japan, South Korea, and the Asian Pacific. The company's export geography is not surprising, since Yakutugol is located in the Republic of Sakha (Yakutia) in the Russian Far East.

Kuzbassugol is the third biggest coal exporter with $ 62 million, ranking as the 61st largest exporter in Russia in 2001. The company belongs to the raw-material division of Severstal group. All the three aforementioned coal-mining companies can be found among the 100 largest corporations in Russia.

Although ranking among the world-class majors in terms of reserves and production, the Russian coal producers are unlikely to establish considerable foreign presence for time to come. The internationalisation of these companies is likely to be carried out via exports, added by relatively modest export-supporting activities. Ongoing consolidation and restructuring of the sector further diminish the probability of Russian coal producers' large-scale expansion abroad in the near term. Improved finances are additionally required for any significant outward expansion.

Table 40 Internationalisation of Russian Coal Producers

Observation	Reason	Target area
Exports are practically the only mode of internationalisation	Satisfactory world prices, weak financial position, ongoing domestic restructuring of the industry	Europe, Japan, Korea
In near-term, the establishment of logistics and marketing units abroad may appear relevant option for some coal producers	Export supporting activities (at present only Kuzbassrazrezugol has established foreign presence)	Export target markets, Baltic Sea terminals

5.6 Wood processing

Russia is the largest 'forest country' in the world, housing 22% of the world's forests. Some 70% of the Russian reserves are located eastwards from the Ural mountains. The main forest reserves in the European part of Russia can be found in the North West District, particularly in the Arkhangelsk and the Komi regions, possessing a tenth of Russian forest reserves.

The wood processing industry, as also many other natural resource based-industries, is highly dependent on exports. Russia is a major exporter of rough and simply processed wood with these exports amounting to over $ 2.5 billion in 2002. When adding the pulp and waste paper exports, the total figure will exceed $ 3 billion.

Table 41 Russia's Main Producers and Exporters in Wood Processing Industry

Company	Net sales, *$ mn*	Exports, *$ mn**	Number of export countries*
Ilim Pulp	848	301.2	85
Syktyvkarski Wood Company	303	110.0	80
Titan Group	294	91.0	50
Svetogorsk	210	…	…
Volga	185	164.7	60
Kondopoga	172	161.0	35
Solikamsk Paper Company	143	93.1	60
Segezha	107	53.0	55

* 2001

Ilim Pulp is one of the world's ten largest pulp producers and a world leader in terms of timber reserves and logging. In 2003, the company's turnover was close to $ 1 billion, making it clearly the leader in the Russian forest industry. The company exports over two thirds of its overall production. Besides the high export volume, Ilim Pulp has established international presence through a representative office in China and a Czech recycling plant, Plzenska Papirna, employing around 300 workers.

Volga is one of the largest paper producers in Russia with a 30%-share of the Russian, and a 1%-share of the global newsprint market. Volga exports over 70% of its production. The largest export market is Western Europe, accounting for over a third of the company's total exports. Other significant export markets include Mediterranean Europe and Asia. The company also has a representative office in Kiev, Ukraine, to handle its exports to the CIS.

Svetogorsk is one of the few companies in the Russian forest sector, having attracted considerable foreign investments. The majority of the company's shares is controlled by International Paper and some 10%-stake is possessed by Tetra Laval. One probable cause for attracting the foreign investments is the preferable location of Svetogorsk near the Finnish border, and hence, closer to the export markets.

Another Russian company in the sector controlled by foreign owners is **Syktyvkarski** LPK. The largest shareholder is Austrian Frantschach with a 19%-stake, accompanied with Burlington Investment Ltd (9%), New Europe Investment Fund (8%), and Conwey Holdings Ltd (6%).

Although the Russia's largest companies in the wood processing industry are notable exporters, the combination of a comparably weak financial situation and vast domestic forest reserves will most likely keep the production of the Russian forest companies inside the Russian borders. However, the marketing units established abroad suggest the increasing interest of the Russian wood processing companies in widening their geography of sales. The ex-CMEA market will most likely be the first step in their outward expansion.

Apart from the exports, the main actors in the Russian forest industry are unlikely to start an aggressive outward expansion before the completion of the restructuring in the sector. This process mainly includes creating larger holdings by combining individual plants.

Additionally, considerable improvement in the companies' finances is needed for more extensive foreign expansion.

Table 42 Internationalisation of Russian Wood Processing Companies

Observation	Reason	Target area
Exports remain the dominant mode of internationalisation, few representative offices appear	Vast domestic resources, weak financial position, comparably higher international prices	Western Europe, CIS
Improved finances would likely increase the international presence of Russian firms, especially in the low-cost CEE region	Feasibility of establishing processing units close to the target markets (Ilim Pulp's factory in Czech Republic)	Eastern Europe, CIS

5.7 Automotive industry

Both in 2002 and 2003, over a million automobiles were produced in Russia. AvtoVaz is clearly a dominant actor in the sector, responsible for two thirds of the Russian automobile production. The company produced nearly 900 000 vehicles in 2003. The second biggest producer is GAZ, covering some 15% of the domestic production. The overall size of Russian car market is close to 1.5 million vehicles a year. During the recent years, the Western brands have continuously increased their market share, especially in the used cars segment.

At present, Russia's automobile exports amount only to a third of that under the Soviet regime. The recent years have brought a slight recovery into the Russian automobile production and exports. Domestic demand for the Russian cars is, nevertheless, declining due to the real appreciation of rouble, and recent improvement in domestic income level, which increases the demand for imported vehicles of higher quality. The car imports are hereby constantly rising, having more than doubled during the past decade. Another problem of the Russian automobile industry is its low level of automatisation, resulting in notably lower productivity of the Russian companies compared to their foreign competitors. At present, the leading producers in the industry post some 5-7 times higher employee productivity figures than their Russian counterparts.

Table 43 The Structure and Performance of Russian Automobile Industry in 2003

Group	Major companies	Production, *units*	Exports, *units*
AvtoVaz	AvtoVaz	700 000	92 000
RusPromAvto	GAZ, UralAZ, Pavlovsky Bus, LiAZ, GolAZ, Volzhskie Motory	250 000	20 000
SeverstalAvto	UAZ, ZMZ	75 000	14 000
SOK	RosLada, DAAZ, Avtopribor, IzhmazhAvto	125 000	9 000
KamAZ	KamAZ, Avtopritzep KamAZ	50 000	5 000
Moscow group	Moskvich, ZIL	100 000	11 000
Russia's total		**1 400 000**	**160 000**

Sources: Companies' reports, authors' calculations.

AvtoVaz ranks among the 10 biggest corporations in Russia in terms of sales. In 2003, AvtoVaz's turnover amounted to some $ 3.8 billion. The company employs over 120 000 workers. As the quality of AvtoVaz's output is not matching up with that of its high-end foreign rivals, the company's main competitive advantage can be found in the low-priced automobile segment. The most potential foreign target markets for AvtoVaz hence include the CIS and the developing countries. Domestically, AvtoVaz's share of the car market stands around 45%.

AvtoVaz produces cars primarily for domestic use. Its exports have, however, grown slightly during the past few years. Besides the exports to some 40 countries, the company has established considerable foreign presence during the past few years, operating several production and distribution subsidiaries overseas. The foreign units of AvtoVaz are located both in Southern Europe and Germany as well as in Russia's western neighbour, Finland. In July 2002, AvtoVaz also opened a car assembly plant in Cairo together with an Egyptian company Amal Foreign Trade Co. The cars assembled at the plant, from the parts supplied by AvtoVaz, are sold in several African countries (see Table 43).

In the end of 2002, a joint venture between AvtoVaz and General Motors started the production of Chevy-Niva in Russia. The new model is targeted on the export markets of Southern and Central Europe. 25 000 vehicles, out of some 60 000 vehicles produced annually, are planned to be exported during 2004.

Table 44 Main Overseas Units of AvtoVaz

Country / Company	Activities	AvtoVaz' share, %
Cyprus		
Lada International Ltd.	Car distribution	100
Egypt		
Lada-Egypt	Car assembly plant	n.d.
Finland		
Oy Konela Ab	Car distribution	70
Germany		
FerroVAZ GmbH	Metal production	50
Greece		
Lada Hellas S.A.	Car distribution	50
Lada Parts Hellas S.A.	Spare parts distribution	50

GAZ is the second biggest automobile producer in Russia. The company's sales amounted to a third of those of AvtoVaz, totalling $ 1.4 million in 2003. The company is controlled by the entities related to Bazovy Element and Millhouse Capital, which bought GAZ into their holding company for the automotive assets, RusPromAvto.

GAZ currently accounts for some 4% of Russian car market and over 60% of light truck and mini-van market. The company is among the 50 biggest exporters in Russia, exporting to over 30 countries.

Ural Automobile Plant (UralAZ) is also part of the RusPromAvto holding. Specialising in the production of heavy trucks, the plant ranks among the 100 biggest companies in Russia in terms of sales. To promote its foreign sales, the company opened a representative office in Montevideo, Uruguay. Besides South America, the company sells its vehicles to the CIS, mainly to Kazakhstan and Turkmenistan, and to Far-East Asia.

UralAZ operates assembly line units in China and Egypt, of which the former produces some 150 trucks and the latter approximately 500 trucks annually. In the near future, a new assembly plant will be set up in Haldia, India, through UralAZ' representative unit in the country. Far-East Asia has traditionally been one of the most important market areas for UralAZ' exports. In addition, the company has announced its plans to set up similar assembly units in Ethiopia and Brazil, also promising export markets for the company.

KamAZ is the third biggest producer in the Russian automobile industry and a leading manufacturer of heavy trucks. The company's sales totalled $ 1 billion in 2003. KamAZ

exports around 30% of its output. The exports remain, however, poorly diversified and heavily dependent on bilateral contracts. A third of the KamAZ' shares are controlled by the Russian state, coupled with some 10% belonging to the Republic of Tatarstan. One of the biggest problems of the company have earlier been the inefficient management and ownership structures, and considerable operational improvements are expected from the new management, put in charge in the mid-2003.

Ulyanovsk Automobile Plant (UAZ) is part of the automobile division, Severstal-Auto, of the Severstal group. In addition to UAZ, Severstal-Auto runs the Zavolzhski engine plant, ZMZ. The consortium specialises in manufacturing of off-road vehicles and engines.

UAZ has recently shown increasing interest in foreign markets. In order to extend its activities overseas, UAZ has signed a co-operation protocol with an Italian company, De Tomaso, to start building UAZ Simbir off-road vehicles at a $ 19-million plant in Calambria. In the end of 2002, UAZ opened a car assembly plant in Venezuela together with the local Aguamar group. UAZ has also established a representative company, UAZ of America Inc., for exporting and selling vehicles to Central America.

SOK is a holding company for 40 enterprises, employing approximately 80 000 people. Although engaged in varying sectors of industrial production, the automobile sector is the flagship of the consortium.

SOK recently announced its aims, to launch a $ 200-million joint venture factory in China, to develop a new, cost-efficient car model. With this venture, SOK is the first Russian car manufacturer to start production on the Chinese market. The company's annual production totals some 120 000 units. With this amount, SOK controls some 15% of the Russian passenger car market.

The internationalisation of the Russian automobile factories is mainly limited to export activities. The main target markets are located in more developing regions of Asia, Africa and South America. Although the exports remain the dominating means for internationalisation, in proximity to these markets, some manufacturing activities have been carried out. If the demand for Russian automobiles on the domestic market continues to decrease and the

overseas developing markets become more lucrative, these foreign production activities are likely to become more common among the Russian car producers.

The sector serves as an example of Russian manufacturers starting to develop more active market-seeking behaviour due to the negative domestic foresights. Despite the relatively weak financial situation of the companies, the attempts are made to improve the profitability through the production in proximity to their main export markets (see Table 45).

Table 45 Some Foreign Operations and Ventures of Russian Automotive Manufacturers

Company	Countries	Operations	Company's share, %
AvtoVaz	Cyprus	Car distribution	50
	Egypt	Car assembly plant	99
	Finland	Car distribution	70
	Germany	Metal production	50
	Greece	Car and spare parts distribution	n.d.
GAZ	China	Assembly line unit	100
	Egypt	Assembly line unit	100
	India	Assembly plant (forthcoming)	100
	Uruguay	Representative office	n.d.
SOK	China	Car assembly plant	~50
UAZ	Italy	Co-operation project for producing UAZ vehicles	~50
	Venezuela	Car assembly plant	100
		Representative office for Central America	n.d.

The main barrier for the Russian car manufacturers, against starting production overseas, is the scale of the required investments. Another fundamental problem is the outdated design of the Russian automobiles and their low level of economy. One of the more efficient means for outward expansion of the Russian automobile industry could include the creation of strategic alliances with the Western car producers. Even then, however, an outward expansion towards the developing markets seems to be the economically most viable alternative, since Russian automobiles will hardly find a commercially sustainable market niche in the West for time to come.

5.8 Heavy machinery

OMZ (Uralmash-Izhora Group), formerly United Heavy Machinery (UHM), is the largest heavy engineering corporation in Russia. In the beginning of 2004, the industrial holding merged with **Power Machines** (PM). The new giant employs over 60 000 workers and posted a consolidated turnover of $ 1 billion in 2003. The market capitalisation of the united company is estimated around $ 600 million. In terms of sales, the corporation ranks among the 30 largest firms in Russia.

OMZ alone controls 70% of the Russian market for oil and gas drilling equipment, 60% of the special steels market, 80% of the metallurgical equipment market, 50% of the nuclear power plant equipment market, and more than 90% of the mining equipment market.

OMZ' products are exported to over 30 countries. During the recent years, exports have accounted for a third of the company's sales, and are estimated to total some $ 300 million in 2003 (OMZ and PM consolidated). Two thirds of the consortium's export revenues were generated by two major contracts of supplying equipment for nuclear power plants, located in China and India. The company's oil and gas rig equipment is mainly exported to the CIS, whilst dry-cargo ships, manufactured by the company's ship business segment, are exported to Western Europe. Altogether Asia accounts for 60%, the CIS 21%, and Europe 19% of the consortium's exports.

Hence, OMZ is a global actor, having established strong international presence. The company possesses production, marketing, and investment units overseas. The most recent acquisitions include two units bought from the Czech engineering company, Skoda Holding, for $ 40 million. Table 46 outlines the main foreign subsidiaries of OMZ. The company has a strong international position in its highly specialised product segments. In equipment for atomic power stations, for instance, the company controls 25% of the world market.

Table 46 Foreign Subsidiaries of OMZ

Country	Company	Activities	OMZ' stake, %
Armenia	OOO OMZAR	Investing activities	100
British Virgin Islands	UHM Investments Ltd.	Investing activities	100
	Shipley Trading Ltd. BVI	Investing activities	100
Czech Republic	Skoda Steel	Castings production	100
	Skoda JS	Nuclear equipment production	100
Netherlands	Friede Goldman Marketing	Sales of engineering services	75
	United Heavy B.V.	Investing activities	100
	UHM Investments NV	Investing activities	100
Romania	UPET S.A.	Production of metal valves, mobile rings and offshore rigs' components	66
Tunis	UHM Tunissia	Representative office	95
Ukraine	OAO CBK Korall	Design and R&D for shipbuilding industry and drilling platforms	30
USA	BioLink Technologies Inc.	Development, manufacturing and marketing of fingerprint biometric products	39
	FGL Buyer LLC	Naval architecture and marine engineering in the offshore drilling	75
	OMZ Investments Co.	Investing activities	100
	Friede Goldman United Ltd.	Royalties and license fees from FGL Buyer LLC	75

Energomash produces a range of machinery products for the power sector. Energomash ranks among the 50 biggest Russian corporations with its net sales exceeding $ 300 million in 2003. Although exporting to over 30 countries, Energomash's exports totalled only modest $ 35 million in 2001.

Apart from the exports, the company has a factory in Ust-Kamenogorsk, Kazakhstan. To support its export activities, Energomash operates a wide network of service centres and representative offices in the CIS countries. The company's foreign network covers all the countries in the CIS, except Armenia and Tajikistan. Energomash additionally operates a representative agency in the UK.

TVEL is a fully state-owned holding company specialising in nuclear fuel and technology. TVEL supplies nuclear fuel to 75 power reactors, 45 of which are located abroad, occupying 17% of the world markets in its primary product segment. With the net sales of almost $ 900 million in 2003, the company ranked among the 30 biggest enterprises in Russia.

A considerable part of TVEL's output is sold overseas. The main target markets include Armenia, Bulgaria, the Czech Republic, Finland, Hungary, Lithuania, Slovakia, and Ukraine. The company also supplies nuclear fuel to Germany and Switzerland in co-operation with Siemens. Large-scale supplies to China and India are further being initiated. In addition to nuclear fuel and technology, TVEL exports zirconium, lithium, and calcium. The value of these non-nuclear exports amounted close to $ 20 million in 2002.

Siberian Machine-Building Holding (SMH) is a consortium comprising some of the largest machine-building plants in Siberia. The manufacturing is concentrated on the agricultural machinery. The company's annual turnover exceeds $ 200 million. Targeting the lion's share of its exports to the CIS countries, the consortium clearly holds a leading position in its product segment in the area. SMH operates a representative office in Kazakhstan.

With the exception of OMZ, the Russian machine-building corporations are mainly executing their internationalisation in the CIS region, concentrating primarily on export activities. Due to its lower perceived quality on the Western markets, the largest internationalisation potential for the Russian machinery apart from the CIS can probably be found in developing Asia and Latin America.

5.9 Foodstuffs, beverages and tobacco

The past few years have marked the gradual internationalisation of Russian foodstuffs and beverages sector, as well as increasing interests of foreign investors in Russian tobacco industry. Whilst the majority of the producers in the foodstuffs industry remain concentrated on serving the domestic markets, the biggest actors have already begun their international expansion. During the past years, several international majors have also entered the promising Russian food industry by establishing production units in the country.

Wimm-Bill-Dann (WBD) is the market leader in Russia in its product segments of wide range of juices, yoghurt, and baby food products. Since its establishment in 1992, the company has grown rapidly both organically, and particularly, through the acquisitions. WBD's turnover was some $ 875 million in 2003 and the company ranks among the 30 largest corporations in Russia. The company currently employs over 16 000 workers.

Even if Wimm-Bill-Dann is primarily focusing on the domestic market, it additionally has a strong position in the CIS region. The company also sells its products to Canada, Germany, Israel, the Netherlands, the UK and the USA through both its own distribution network and independent distributors (see Table 47).

Table 47 Foreign Units of Wimm-Bill-Dann

Country	Company	Activities	WBD's share, %
Canada, Germany, Israel, Netherlands, UK, USA	Distribution centres	Sales, marketing	100
Kyrgyzstan	Bishkeksut	Dairy plant	84
Ukraine	Kiev Dairy	Dairy plant	58
	Kharovsky	Dairy plant	82
	Burynsky	Dairy powder factory	76

Wimm-Bill-Dann has production units in Kyrgyzstan and Ukraine. In 2000, the company acquired an 84%-stake in a Kyrgyz dairy plant, Bishkeksut, for a modest $ 450 000. A year later, WBD acquired a 60%-stake in a Ukrainian plant, Kiev Dairy No 3, in a $ 4-million deal. In 2002, WBD strengthened its presence in Ukraine by acquiring an 82%-stake in the Ukrainian Kharkovsky dairy plant for $ 5 million, followed by the acquisition of a 76%-stake in the Burynsky Dairy Powder Factory for $ 2 million. In the beginning of 2004, WBD announced an investment plan of $ 13 million to modernise the Kiev and Kharkov plants.

Despite the WBD's foreign production facilities, the bulk of the company's production is carried out inside Russia. Since the company's business is continuously growing, its future acquisitions may, however, include the companies from CEE. It is likely, that the CIS will, nevertheless, hold the largest potential for WBD's foreign operations in a shorter term.

Baltika, controlled by an international joint venture, Baltic Beverages Holding, of Carlsberg Breweries and Scottish & Newcastle Plc, is the second biggest corporation in the Russian foodstuffs and beverages sector. Baltika clearly holds the leading position (a 33%-market share) in the Russian beer market. The company further holds a leading market share of 21% in Ukraine. In 2003, Baltika's net sales totalled $ 1.3 billion.

Although the exports cover only few percent of Baltika's total sales, the company is responsible for impressive 70% of beer exported from Russia, and over a half of the imported beer sold in other CIS countries. In addition to almost all the CIS countries, Baltika exports its products to the Baltic States, Western Europe, and the USA.

Apart from its export activities, the internationalisation of Baltika has been limited to only a few smaller-scale projects. In 2001, Baltika invested $ 11 in upgrading the Krinitsa brewery in Belarus, but had to withdraw from the project due to dispute over its managerial and financial terms. In April 2002, Baltika signed a licensing contract with Latvian Aldaris brewery to produce Baltika beer in Latvia. In Ukraine, the company is due to open a brewery around the mid-2004.

The international tobacco giants have recently found their way to the Russian markets. Two rapidly growing subsidiaries of multinational tobacco companies have appeared among the 40 biggest companies in Russia. **Phillip Morris Izhora** (PMI) holds the leading position in the country in terms of sales ($ 584 in 2002), followed by a Japanese-owned **Petro.** In 2002, PMI exported some 3-4% of its Russian production to the CIS region, mainly to Belarus, Ukraine, Armenia, Moldova, and Kazakhstan. PMI is the largest exporter of tobacco products to the region.

Also smaller companies in the Russian tobacco industry have shown interest in the East European markets. Rosbulgartabak and Metatabak have for several years eyed a controlling stake in Bulgartabak, a Bulgarian tobacco monopoly likely to be privatised during 2004. The issue of Russian ownership of an economically sensitive sector has raised a heated debate in Bulgaria.

As a conclusion, the Russian producers of foodstuffs and beverages are largely concentrating on the domestic market and only few companies are engaged in internationalisation activities other than exports. The focus of their activities has dominantly been on the CIS markets with some exceptions of exporting to Western Europe and the USA. The reasons are easy to find, since the products of Russian foodstuffs and beverages sector face larger demand on the ex-socialist markets than on the Western ones, where the markets are heavily regulated and incorporate fiercer competition. The CIS region likely remains the most lucrative market for the products of the Russian foodstuffs and beverage companies. Also the targets for potential

future acquisitions by the Russian companies are likely to be found in the CIS. Moreover, the Western producers are discovering Russia as a viable production location, which will undoubtedly further promote the foodstuffs and beverage exports from Russia both to the CIS and Western markets.

The rapidly growing Russian tobacco industry attracts the Western majors to establish their branches in the country. Russia is the world's third largest consumer of cigarettes after China and the USA. Large domestic demand, combined with relatively low labour costs, can act as an incentive for establishing more production in Russia, further increasing the country's exports of tobacco products.

5.10 Telecommunication

Following the radical changes of the past decade, the Russian telecommunication sector is currently one of the most rapidly growing businesses in the country. The vast market of new mobile technology users is attractive for both local and international companies. Largely pushed by strong domestic growth, the Russian telecommunication majors simultaneously move towards the less developed CIS markets.

In 1992-1993, the fixed telephone market underwent its first restructuring. The state formed one local operator in each of the federation's 89 regions. The state kept 51% of the operators' common shares and 22% were sold by regional property funds, which reinforced the regional division of the sector. Simultaneously, the state established a dominant service provider, Rostelecom, for long-distance and international calls.

In 1994-1995, a state holding company, Svyazinvest, was founded, controlling almost all the market segments and having a license to operate the telephone network until 2004. Svyazinvest possesses controlling stakes in the eight interregional telecommunications companies, formed during the major restructuring of the sector in 2002, and in the long-distance telephone monopoly, Rostelecom.

Rostelecom is a government-controlled fixed line operator, providing the network services to around 90 regional telecompanies. Moreover, the regional operators are required to route all their long-distance and international calls via the Rostelecom's network. The recent years

have marked considerable improvement in the company's finances and its sales amounted to almost $ 1 billion in 2003. In the spring 2002, the company opened a representative office in Yerevan, Armenia. In 2003, Rostelecom reported its interest in acquiring a 51%-stake in Kyrgyzstan's national telephone company, KyrgyzTelecom, after the initial winner of the auction failed to fulfil the acquisition terms.

The Russian mobile telecommunication market continues to grow at a rapid pace with the number of the mobile phone users having more than doubled during 2003. The size of the market reaches 40 million users, and the amount is estimated to exceed 50 million during 2004. The three dominant players in the mobile communication market are Mobile TeleSystems (MTS), VimpelCom, and Megafon.

MTS, founded by principal owners Deutsche Telecom (37%), Moscow City Telephone Network (20%), ASV (19%) and Siemens (10%), is the leading Russian mobile phone operator both in terms of sales and subscribers. The company's market share in Russia is around 40% and its sales exceeded $ 2.5 billion in 2003.

Besides its leading position in the Russian markets, MTS has expanded its activities to Ukraine, where it serves over 4 million customers, and to Belarus with over half a million subscribers (Table 48).

Table 48 Foreign Ventures of MTS

Country	**Company**	**Number of subscribers,** *mn*	**MTS's market share,** *%*
Ukraine	UMC	4.1	60
Belarus	Mobile TeleSystems LLC	0.6	50

In 2003, MTS acquired the controlling stake in the largest mobile operator in Ukraine, UMC[18]. The price of the purchase was $ 194 million. In 2003, MTS further invested over $ 60 million in Ukraine. In Belarus, MTS holds a 49%-stake in Mobile TeleSystems LLC. The investments to the company totalled $ 53 million by the end of September 2003.

[18] In June 2004, the Ukrainian Prosecutor's Office claimed the stake was acquired in a violation of the law and insisted the MTS to be deprived from its share. The issue will be settled in the Ukrainian commercial court and MTS certainly faces the possibility of losing its assets in the country.

In addition to its operations on the Ukrainian and Belarus markets, MTS is reported to have interest in near-term privatisations in Bulgaria and Moldova.

VimpelCom is a rapidly growing challenger of MTS, currently holding the second position on the Russian market. VimpelCom's sales exceeded $ 1.3 billion in 2003. As the company seems to concentrate on the rapidly growing domestic market, no foreign units belonging to VimpelCom have been reported to exist.

Megafon is the third major player on the Russia's growing telecommunication sector. Megafon has neither extended its operations beyond the Russian borders, nor have the authors located any foreign units belonging to the company. The controlling interest in Megafon is held by the Swedish-Finnish telecommunication giant, TeliaSonera.

The promising Russian market offers sufficient growth potential for most of the operators in the Russian telecommunication sector in a short term. At the time of writing this report, only the mobile market leader, MTS, has engaged in foreign operations, targeting the lucrative CIS markets with underdeveloped communications system and considerably less fierce competition. Thereby also the other Russian operators will most likely join the race on the CIS markets during the next few years[19]. The expansion towards the Western markets currently seems relatively unrealistic target for the Russian telecommunication companies due to the established market positions and ultimately harder competition on these markets.

5.11 Chemical and petrochemical industry

The chemical and petrochemical Industry covers nearly 10% of the Russia's industrial fixed assets, being one of the backbones of the country's industrial production. The unit size in the industry is extremely large. All the Russian petrochemical conglomerates comprise several individual plants and industrial facilities. In addition, some Russian oil and gas companies are engaged in the petrochemical sector.

[19] In June 2004, Golden Telecom announced the acquisition of a 54%-share in Uzbekistan's only alternative fixed-line carrier, SP Buzton, for the price of $ 2.8 million.

The export-orientedness is characteristic to the Russian chemical and petrochemical industry. Almost all the leading companies' exports amount over a half of their total sales.

SibUr, a 75% owned subsidiary of Gazprom, is clearly the largest petrochemical holding in Russia. The holding comprises around 90 chemical companies ranging from the field of gas processing to tyre manufacturing. SibUr accounts for 25% liquefied gas, 50% of rubber, and 48% of tires produced in Russia.

The foreign activities of the company other than exports are however extremely difficult to outlay due to their interconnectedness with the activities of Gazprom which is by far the biggest supplier of raw materials to the company. No foreign units belonging directly to SibUr could be identified, the researchers being however conscious that the company is engaged in numerous foreign projects, including the natural gas exports and production of chemical and rubber products.

During the period 2001-2002, SibUr was marked by severe financial troubles and management embezzlement resulting Gazprom to initiate the bankruptcy proceedings as a majority owner and restructure the SibUr debts. Along with the management shift and stricter cost control, drastic improvement in the company's performance was witnessed in 2003.

Niznekamskneftehim is a Tatarstan-based company and a biggest private actor in Russian petrochemicals' market. Currently owned by the management with a 35%-share remaining in the hands of the Tatarstan government, the company has attracted interest of a variety of domestic and foreign strategic actors including Tatneft, Yukos, Basf and DuPont. Niznekamskneftehim operates several chemical and tyre plants in Tatarstan, including the Russia's largest producers of synthetic rubber tires, Nizhnekamsk Tyre Factory. Currently, strong indicators exist for further privatisation of the Tatarstan government's share in the company, which has been transferred to a state holding company, Svyazneftekhiminvest. The holding company has currently taken over government stakes in practically all the most attractive companies in the Tatarstan region, including Tatneft.

Over a half of Niznekamskneftehim's production is exported with its value reaching almost $ 400 million in 2003. Besides the exports, the company has established international presence by acquiring a 50%-stake in a Swiss company, Nizhex Europe AG, in 2001. The foreign unit

distributes Niznekamskneftehim's rubber products in Western Europe and the USA. Niznekamskneftehim has also other foreign marketing units, including Nizhex Scandinavia in Finland.

Apatit Mining Group, located in the Murmansk region, is one of the largest producers of chemical fertilisers in Russia. The group's foreign sales exceeded $ 300 million in 2003. The researchers were not able to identify any significant foreign units belonging to the group.

Acron is one of the largest mineral fertiliser producers in Russia and a significant player even in worldwide comparison, since its annual sales amount to 5.5 million tonnes. The company's exports account almost for 80% of its output, exceeding $ 350 million in 2003. The most significant export markets for Acron are China, the USA, and Western Europe.

With some 50 countries on its export list, the company's biggest export market is China, accounting for over a third of the total exports. Chinese exports are carried out through Acron's representative office in Beijing. In 2002, Acron further established Shandong Fertilisers Plant, the country's largest compound fertiliser company. Acron has expressed additional interest in a phosphate and coal-related chemical projects in Guizhou Province in South-West China.

Besides the large-scale exports, Acron has established several ventures and partnerships in the Nordic countries. In 2000, Acron signed an agreement with Finnish Kemira on a strategic partnership regarding the mineral fertilisers markets in the CIS and the Baltic states. Along with the agreement, a joint venture Kemicrona was established, to facilitate the presence on the regional fertiliser markets. Another joint venture, Nordic Rus Holding, was formed in collaboration with Norwegian Norsk Hydro in 1997.

Acron has further enhanced its raw-material supply chain by acquiring a minority stake in one of the Russia's largest potassium chloride producers, Sylvinit. The company's production comprises essential raw materials for Acron.

Uralkaly accounts for 13% of the world's potassium fertiliser production and ranks the 5th in the production capacities. The annual sales of the company total some $ 235 million. Around 80% of the company's production is exported, altogether to over 50 countries. The main

export markets include Brazil, Southeast Asia Eastern Europe, and the CIS. In order to support the company's exports, a representative office has been established in Beijing, China.

Reportedly, Uralkaly does not currently possess any production units outside Russia. In 2001, the company opened a Baltic Bulk Terminal in Estonia in order to enhance the company's Western exports.

To support their exports, the companies in Russian chemical and petrochemical sector have thus increased their international presence through marketing activities and acquisitions of logistics units abroad. The reportedly low number of foreign equity holdings of Russian chemical and petrochemical companies leads the researches to assume several 'hidden' overseas acquisitions of these companies, especially in the CIS region. The low number of the tangible foreign investments of individual units additionally results from the ownership structures of the units, which are often controlled by the regional government or major oil and gas companies (the subsidiaries of Gazprom, Lukoil etc.).

Nevertheless, should the Russian chemical and petrochemical companies manage to improve their still relatively poor financial situations, the increasing number of acquisitions especially in the CIS region are likely to be witnessed, especially what comes to several upcoming privatisation deals in the CIS and Eastern Europe.

This chapter has provided an overview of the international activities of the leading Russian companies in their industries. To conclude, the Russian companies are gradually engaging in more demanding international operations and are moving away from the status of mere raw-material suppliers to the world markets. Although the exports remain a dominant mode of internationalisation of the Russian petrochemical companies, several industrial leaders, followed by the smaller actors, have recognised the opportunities linked with establishing presence on the foreign markets.

Although the natural resource-based companies indisputably hold the leading position in the country's exports, also the manufacturing and service companies have started their expansion abroad, gradually proceeding from export promotion to acquisitions of foreign distribution channels and production outlets.

Table 49 Internationalisation of Russian Non-Natural Resource-Based Companies

Observation	Reason/ evidence	Target area
Foodstuffs, beverages and tobacco		
Very few actors have established international presence	Weak financial situations, fierce competition in foreign markets → The producers are mainly oriented towards the domestic market	Mainly CIS
Exports are targeted mainly towards the CIS markets	Less fierce competition, bigger demand for the Russian products due to a 'common taste'	Mainly CIS
Several foreign majors are eyeing Russia as a production location and a market area → Potential for further increasing Russian exports	Low production costs, growing demand for foreign products → Russia emerging as a production site and an export base on one hand, and a growing market on the other	
Future international presence is likely to be established primarily by the Russian actors with foreign ownership	Better financial liquidity, established market positions, and distribution channels provided by the acquiring company	CIS, Baltic States, Western Europe (in the longer term)
Automotive Industry		
Exports are dominantly targeted towards the developing countries and the CIS	Decreasing demand on the domestic market; Comparably low quality of production; Lower price suitable for the developing markets	CIS, Africa, Southern and Central America
Strong internationalisation tendencies despite the relatively weak financial positions of the companies	Growth can be achieved only on the foreign markets → Production on (or close to) the target markets providing low-cost environment	Africa, Southern America
Leading producers slowly retargeting their production towards the higher-class segments	Attempts to strengthen the position especially on the domestic markets, but also entering the new market areas (the joint-venture of AvtoVaz-GM)	Southern and Central Europe
Foreign acquisitions expected to increase also in distribution and marketing as well as in the production sector	Improving financials would enhance strategic acquisitions → Representative offices, production facilities etc. (AvtoVaz's ownership in Finnish Konela)	Developing countries and CIS, in the future potentially also the Western markets
Heavy Machinery		
Only very few companies in the sector are internationally present, exports remain the primary mode of internationalisation	Heavy concentration in the sector; Weak financial situation of the companies (exception of OMZ-PM)	
Exports mainly targeted towards the CIS markets	Practically all the industrial facilities in the CIS countries date back to the Soviet era → Russian heavy machinery equipment often required for keeping the facilities operating; Low product quality for the Western markets	CIS
Telecommunication		
The developing CIS mobile markets are (and most probably will be) the only target for the internationalisation of the Russian telecommunication companies	Lucrative size and growth of the home markets; Practically no competition on the relatively large CIS markets (vs. fierce competition against Western giants on more developed mobile markets)	CIS

5.12 Military equipment

Kazan Helicopter Plant is one of biggest helicopter manufacturers in the world, producing both military and civilian helicopters. The company's main product family, Mil helicopters, occupies around a fifth of the world market. The company's net sales amounted to some $ 200 million in 2003.

The company exports almost 90% of its output, to some 20 countries worldwide. Its exports in 2001 were valued at $ 170 million. Since the beginning of its operations in the mid-1950s, the company has sold almost 4000 aircraft overseas. A half of these have been sold to Asia, a quarter to Eastern Europe, a fifth to Africa, and 5% to South America.

Motovilihinskie Plants produce machinery for military purposes, particularly towed artillery. The plants' foreign revenues were nearly $ 100 million in 2001. The corporation's export markets are extremely concentrated and the Motovilihinskie Plants sells its production only to a few countries.

Ulan-Ude Aviation Plant is a major helicopter manufacturer. Despite its peripheral location in Buryatia near Mongolia, the company is a significant aircraft exporter. The foreign sales of the plant amounted to some $ 80 million in 2003.

The Russian aircraft producers reportedly have no foreign representation or subsidiary units. The companies' exports are mostly carried out through bilateral negotiations and individual deals.

The recent years have witnessed a strong growth of the Russian arms and military equipment exports. The value of the foreign sales of the largest Russian arms trade company, **Rosoboron**, exceeded $ 5 billion in 2003. The main target markets for the Russian arms exports have traditionally been China and India, with Vietnam and Indonesia having recently emerged as another large trade partners.

Besides the huge volume of the official military equipment trade, vast black markets for Russian arms exports exist. The illegal arms trade from Russia, gaining volume at a rapid

pace, has raised serious concerns over Russia's 'support' to the entities engaged in international criminal activities and terrorism.

Table 50 Internationalisation of Russian Military Industry

Observation	Reason	Target area
Exports are principally the only mode of internationalisation for the Russian military companies	Extremely sensitive nature of the business, exports are carried out by straight deliveries	Afghanistan, China, India, Iran, Southeast Asia
Export markets are highly concentrated → the deliveries reflect the Russian political ties and ambitions	The exports are carried out through individual deals, often negotiated at the political level	Afghanistan, China, India, Iran, Southeast Asia

6 RUSSIAN CORPORATIONS ABROAD – WHAT DOES IT MEAN FOR THE REST OF THE WORLD ?

The Russian outward FDI stock totalled over $18 billion at the beginning of 2003. With this amount, Russia covers roughly 60% of the ex-socialist countries' total outward FDI stock. Although Russia dominates the FDI outflow from the transition economies, Russia is a dwarf in an international comparison, covering only 0.3% of the world's outward FDI stock. The USA, the biggest outward investor in the world, has invested overseas some 100 times more than Russia. Although Russia is still a small outward investor, two issues must be pointed out.

Firstly, Russia's outward FDI is growing. Almost 90% of the Russian FDI outflows have taken place within the past six years. Should the world market price of oil, gas, metals, and other natural resources remain high, the outward expansion of Russian firms will accelerate significantly, since the Russian natural resource exporters can improve their finances and, hence, have more capital to invest.

Secondly, Russian companies have shifted much more capital abroad than the outward FDI stock indicates. Russia's outward FDI stock does not represent all the Russian capital abroad. Here, one needs to remember that the capital flight from Russia was $ 245 billion during the 1992-2002. In other words, Russian firms and individuals possess much more buying power abroad than the outward FDI stock indicates.

The UN data indicates that a half of the Russian FDI has made its way to the enlarged EU, and a quarter to the USA. The three main countries receiving Russian capital outside the ex-USSR are the USA, Poland, and Germany. Together these three countries host over a half of Russia's outward FDI stock. Finland's stake is relatively insignificant, only 1-2%, despite the large number of the Russian-owned companies in Finland.[20]

UNCTAD indicates that Lukoil, along with three Russian shipping companies, ranks among the 10 most transnational companies based in the ex-CMEA. The authors consider that the shipping companies should be excluded from the list since the outward expansion of these

[20] Some 1500 enterprises with Russian ownership are registered in Finland.

companies reminds one more of a technical exercise rather than genuine internationalisation, because the foreign-flagging ships does not mean that the firm would have become more committed to foreign operations or that the business practices would have changed. Maritime transportation is an international business by definition and hence, those shipping companies dealing with international trade do not become global as such, but rather are born global.

Apart from the maritime transportation companies, the researchers argue that the top ten Russian industrial companies having established the strongest international presence in terms of foreign assets, include **Gazprom, Lukoil, RusAl, Norilsk Nickel, Itera, Yukos, OMZ, Rosneft, Alrosa, and Severstal**. Since the identification of the exact value of the companies' foreign assets is an impossible task, the presented order only gives some direction of the scale of these companies' investments abroad. Table 51 outlines the main features of the international presence of these companies.

Table 51 The Outline of Foreign Assets of the Russia's Most Transnational Industrial Companies

Company	Countries with established presence	Type of foreign assets/ ventures	Estimated value of foreign assets
Gazprom	Practically all the CIS, CEE and EU countries, Southern Europe	Gas trading and distribution, marketing, petrochemicals and gas equipment manufacturing, pipeline projects	>10 billion
Lukoil	Azerbaijan, Baltic States, Bulgaria, Columbia, Egypt, Iran, Iraq, Kazakhstan, Romania, Saudi-Arabia, Ukraine, USA	Oil and gas production and exploration, oil refining, petroleum retailing, marketing	$ 8-9 billion
RusAl	Armenia, China, Germany, Guinea, Romania, UK, Ukraine, USA	Aluminium refining, processing and production, bauxite mining, sales and marketing	$ 2.5-3 billion
Norilsk Nickel	Belgium, South Africa, Switzerland, UK, USA	Sales and marketing, PGM production, cobalt production, gold mining and production	$ 2 billion
Itera	Armenia, Belarus, Estonia, Georgia, Latvia, Moldova, Turkmenistan, USA, Uzbekistan	Headquarters (USA), gas distribution, plastic manufacturing, fertilisers production, metallurgical production, pipeline operations	$ 1-1.5 billion
Yukos	Austria, China, Kazakhstan, Lithuania, Slovakia, UK	Oil exploration, process technology, pipeline operations and oil transportation, oil refining	$ 1 billion
OMZ	Armenia, British Virgin Islands, Czech Republic, Netherlands, Romania, Tunisia, Ukraine, USA	Production of metal devices, investing and sales activities, technology development, engineering services, nuclear equipment production	$ 500 million
Rosneft	Afghanistan, Algeria, Columbia, Kazakhstan	Oil and gas production, field development, reconstruction of oil and gas infrastructure (Afghanistan)	$ 500 million
Alrosa	Angola, Belgium, Israel, UK	Diamond mining, sales and marketing, product development	$ 500 million
Severstal	USA	Steel production, sales and marketing	$ 500 million

Considering the foreign expansion of Russian companies, the sectoral division easily becomes apparent, in the levels of engagement in and the modes of internationalisation. The sectoral observation of these processes thus reveals considerable differences between the internationalisation patterns of the companies in different industries. In this comparison, the

natural resource-based sectors clearly hold the leading position, both in terms of exports and international assets.

Oil and natural gas

The most active Russian expanders can undoubtedly be found in the oil[21] sector, where especially the large players have accommodated active expansion strategies. It must be remembered though, that also in the Russian oil industry, the large-scale foreign expansion actually lies on the shoulders of a very few actors. Although the companies such as Lukoil and Yukos already rank among the world's top oil majors, the sector still comprises several companies that are mere regional players rather than having established notable international presence. Even though the exports are currently the main source of revenues for almost all of the Russian vertically-integrated oil companies, only few, still, have established strong international presence.

Although the international activities of Russian oil and gas companies practically cover the whole globe, the main target locations include the resource-rich Middle-East and South America. Another important location for the foreign operations of Russian oil and gas companies is Eastern Europe, where the Russian firms control several refining facilities and distribution outlets. Additionally, in consequence of the Lukoil's acquisition of the US-based Getty Petroleum Marketing, and the establishment of an extensive gasoline retail chain in the country, the sphere of foreign operations of the Russian oil companies have also reached the USA.

The more recent feature of the Russian oil companies' foreign expansion is the change of interest towards the majority ownership in their foreign units. This tendency has become visible in practically each company's operations that have established considerable presence overseas. Lukoil, clearly leading the run in terms of foreign assets, provides an example of this type of ownership strategy. Having deprived itself from the smaller, usually less profitable units, the emphasis of the company has been on the projects where it holds a remarkably larger share. The interest in increased control can, at least to some extent, be seen to result from the experienced troubles in governing the strategic assets in ex-Soviet countries when being a Russian company. Further reasons for seeking for increased control include the

[21] Although Gazprom is probably the most international Russian company in terms of foreign assets, the gas giant is not included in this consideration due to its special economic and political role in the Russian economy.

gradual privatisation of the natural resource-based industries in the CEE region, offering the opportunities for strategic acquirers to increase their ownership.

As an overview of the foreign expansion of Russian oil companies, it can thus be concluded that few majors are responsible for the lion's share of the industry's foreign assets. Nevertheless, those companies in question do have a considerable presence in foreign markets, rapidly extending the scale and scope of their foreign activities both in upstream and downstream sectors. Other companies merely concentrating on exports are likely to slightly increase their foreign presence in the foreseeable future through acquisitions of refining and production sites. It is doubtful, however, if any of these smaller regional producers will appear as a truly international player for time to come.

Metals

The metals sector stands out as the second most transnational Russian industry. The leading metallurgical conglomerates, such as Norilsk Nickel, Severstal and Magnitogorsk Metal Kombinat, already classify as recognisable international majors in their industries.

The international operations of Russian metal companies mainly comprise the resource-rich African countries. Understandably, the primary export markets of these companies mainly include the more prosperous Western European countries, the objectives of the actual foreign presence thus being more resource-seeking in their nature. Few of the companies, however, have recently extended their presence to the American continent. The recent strategic acquisitions of the US steel producers, Rouge Industries and Stillwater Mining, by Severstal and Norilsk Nickel, considerably add to the strengthened international positions of the Russian steel majors. Thus, it can be quoted, that though the Russian metal companies are still on their way to reach their potential on international markets, the scope of internationalisation of the leading companies already stands up to that of their Western counterparts. These majors have established considerable international presence, which is only to increase along with their improving profitability and market capitalisation.

Non-natural resource-based industries

Measured in terms of foreign assets, only very few companies apart from the oil, gas and metal sectors, rank among the top corporations in Russia. Among the ten most transnational Russian companies mentioned above, only OMZ stands out as a non-natural resource-based corporation.

Nevertheless, the Russian machinery and automotive corporations have notably expanded their international operations during the past years. The automotive companies provide an example of an active market-seeking strategy. Along with the depleting domestic demand, the companies are increasingly targeting the overseas markets and establishing foreign production units. On the less-developed markets of the CIS, South America and Africa, Russian automotive producers are likely to retain their competitive advantage, mostly resulting from the low prices and existing trade connections.

Led by OMZ, the Russian heavy machinery companies dominate the markets in the CIS region. These companies are the largest suppliers of equipment to the industrial plants and facilities in the region, dominantly built in the Soviet era and thus employing the Russian technology. Apart from the CIS countries, Russian machinery companies' internationalisation is largely based on exports and overseas sales units. OMZ thus far remains the only company in the industry having established foreign presence outside the CIS other than exports.

Differing games in different regions

The enlarged EU is the main target for the Russian natural resource-based groups (NRGs) when they are implementing (financial) efficiency-seeking and market-seeking strategies. Many of the Russian NRGs target the EU markets due to the superior profits compared to the CIS and eastern parts of Europe, for instance. However, when searching for foreign resources, they mainly focus on the Caspian Sea region and developing countries, or some states, which have a rather dubious reputation in the eyes of many Western nations, for instance Iraq, Libya, or Sudan. If the Russian NRGs are seeking for strategic assets, they usually land in the former socialist bloc, where they perceive themselves to have a competitive advantage vis-à-vis their Western competitors, due to their previous experience and connections in the ex-

communist countries. The privatisation of the state-owned companies in Eastern Europe and the ex-USSR has also attracted many of the Russian companies.

The CIS region is still an important target market for most of the Russian companies. There are several specific features connected to the CIS as a market area for Russian firms, with several characteristics of the old regime still highly visible.

Probably the most peculiar features in this sense are connected with the Russian state-controlled companies' expansion to the CIS countries, executing the Russian foreign policy in the region. The strategic actors under the Russian state control, led by Gazprom, execute significant power in the region and several countries remain fully dependent on their exports. Possessing a wide distribution and subsidiary network in the CIS, Gazprom dominates the natural gas market in the region. Many of the CIS countries are thus attempting to reduce their dependency on Russian supplies in both oil and natural gas sectors through initiating the exploration activities in the Caspian Sea region and introducing the bilateral agreements with the other neighbouring countries.

The sensitivity of the Russian primary energy deliveries to the CIS is enhanced by the fact that almost all the West European natural gas supplies run either through Belarus or Ukraine, with neither of which Russia has had the warmest political relations. The West European countries, however, remain heavily dependent on the Russian gas supplies with very few options available of replacing them with comparable deliveries from any other source.

For the other Russian NRG's, the CIS countries mostly offer inexpensive locations for the production, refining and processing activities. Along with the natural gas, the Russian oil deliveries are in most cases of strategic importance for the CIS countries in an urgent need for crude supplies and oil transit revenues. Hence, the characteristics of the old regime are still highly visible, with Russia dominating the primary energy deliveries, and the smaller actors often obliged to comply with the terms set by the giant supplier.

For the industrial manufacturers, the CIS region still offers the most viable, and often the only relevant, target market. Since the Russian industrial production is in most cases unable to meet the Western quality standards (either set by the consumers or legislative acts), the CIS

offer markets for their production, along with the developing and transition economies of Africa and Southern America.

The recorded Russian FDI in the CIS, however, remains extremely low despite the close mutual trade relations. Only few percent of Russian outward FDI have been reported to have flown to the CIS region, thus causing the authors to assume a massive amount of hidden investments and capital round-tripping through the offshore units belonging to Russian companies. The main reasons for this phenomenon most probably include the resistance in several CIS countries towards the Russian majority ownership in local firms, especially in the strategic sectors of the economy.

The new EU member states indisputably create new possibilities for the internationalisation of Russian companies, providing efficient means for deeper integration between Russia and the Union. Currently, many of the Russian industrial majors have established production or processing units in Central and Eastern Europe, offering the advantages of relatively low-cost production sites and proximity to the important target markets of the EU. Along with the enlargement, these beneficiaries are most likely to increase, providing Russian firms with simplified access to Western European markets. Especially for the oil and gas companies, several of the new EU countries are strategically located, either accommodating the transport pipelines or possessing the port facilities on the Baltic Sea. The Russian oil companies and Gazprom in particular have been active in seeking to acquire the distribution companies and seaport facilities in these countries, thus aiming at strengthening their positions in the strategically important oil and gas distribution sectors.

For the manufacturing sector, the CEE countries, including the new EU members, have been suitable locations for acquiring and establishing additional production units. Especially the privatisation process in South-Eastern Europe has attracted the Russian companies, who are keen in widening their productive asset base by acquiring relatively low-priced facilities in the region.

Russia thus plays different games in different regions. In the West, the expansion of the Russian firms can mainly be explained by economic motives. In the developing world, the economic and political goals of the Russian actors are sometimes so closely interconnected that their separation is impossible in practice. In the CIS, the Russian political aims dominate.

The way the Russian firms operate in the Western CIS and Kazakhstan, has a tremendous impact on the attitudes of the EU, the USA, and even China, towards the Russian business expansion abroad and their game strategies concerning Russia.

Approaching the internationalisation of the Russian corporations via a game theory, one may argue that the most fruitful outcome can be reached when the expansion of the Russian firms abroad is driven by business motives. Then the internationalisation of the Russian firms contributes positively both to the economic development and the political stability (Win-Win game). Should the recipient countries, however, perceive that the underlying motive behind the Russian business expansion is Russia's goal to gain more political influence in the target country, it will lead to a strong resistance in investment recipient countries (Lose-Lose game). Other games describe a situation where rivalry between Russia and the investment recipient prevails. Such an unsustainable balance leads in longer run either to mutually advantageous Win-Win game or mutually disadvantageous Lose-Lose game (see Figure 4).

Figure 4 The Internationalisation of the Russian Corporations – A Game Theory

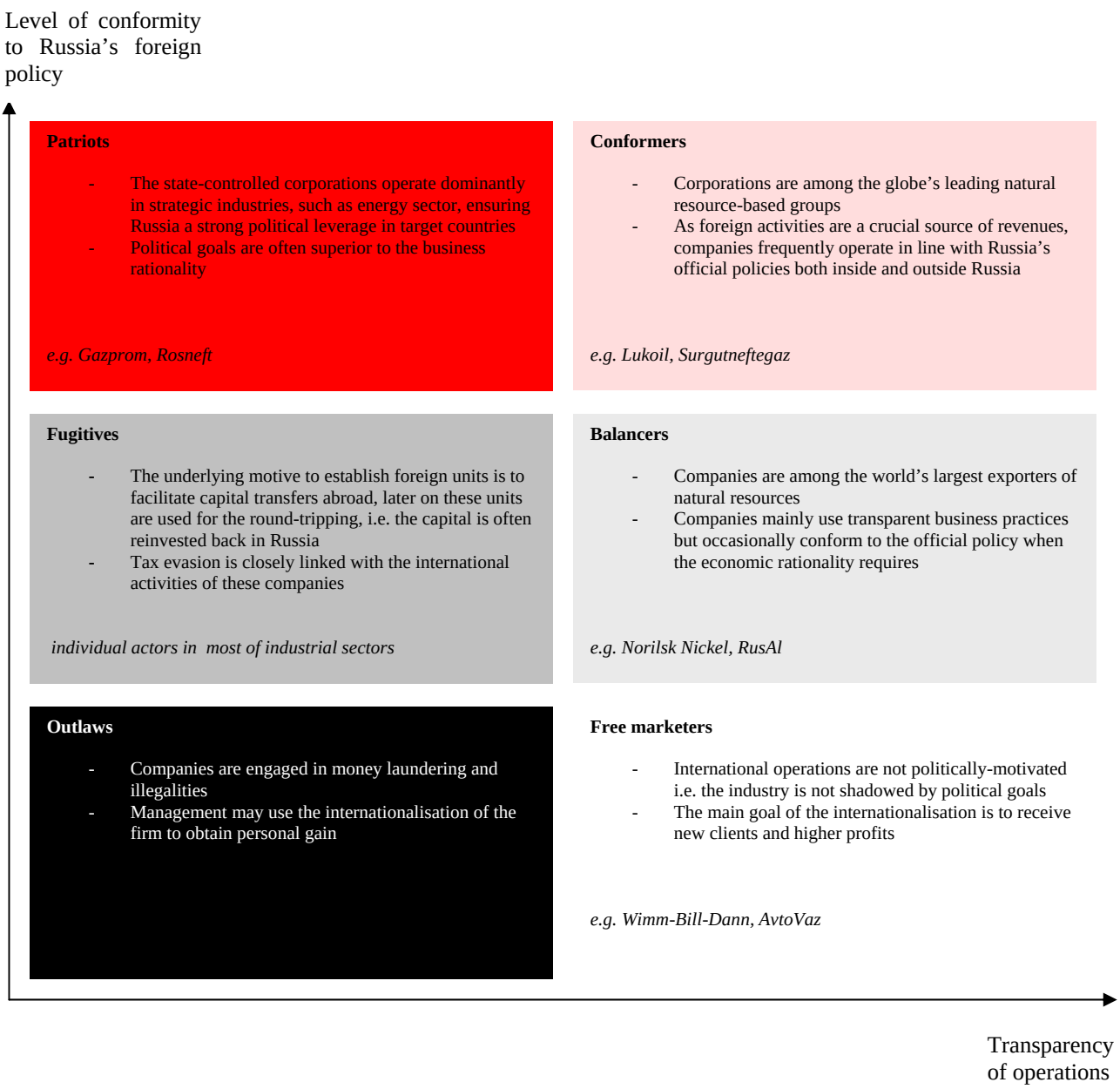
Lose-Win: Recipient countries protect own competitive position by creating artificial barriers for Russian companies to enter their home market **-> unsustainable balance**	**Win-Win:** Russia and her firms benefit from the globalisation and the EU enlargement Increased security of energy supply and growing political stability in Europe and beyond **-> full integration of Russia into the global economy**
Lose-Lose: Russian energy firms act as business arms of Russian (conservative) foreign policy Strong resistance of recipient countries **-> seeds laid for new cold war**	**Win-Lose:** Russian firms use their earlier contacts and foreign intelligence in the former USSR and some developing countries to replace their western competitors **-> unsustainable balance**

The political and economical leverage of Russian companies on their overseas target markets understandably relates closely to the size and strategic importance of the firms. The Russian companies having established the strongest international presence rank among the top

exporters from the country. The explanation for their broad international activities is simple; the strong exporters mostly possess gigantic reserves of strategic commodities and the price level inside Russia is considerably lower than on the world market. Therefore the Russian firms in possession of an internationally competitive commodity aim at selling it abroad. As a result, the companies often gain stronger financial positions compared to other industrial branches. In this context, the discussion has recently aroused, on the Dutch disease – a phenomenon of the vast oil and gas exports and high world market prices for these commodities causing the appreciation of domestic currency, thus making the other domestic exports non-competitive. However, Russia cannot be regarded as a pure oil state as such, taking into account the vast skilled and educated human resources of the country. Exploiting this potential to enhance the competitiveness of the more value-added sectors of the economy thus remains the major future challenge of the country. Before considerable improvements in the competitiveness of other industrial branches, it can thus be quoted that as the natural resources dominate Russian exports, the natural resource-based companies likely remain to dominate the Russian firms' outward investment activities.

Summing up the internationalisation patterns described above, the Russian corporations can be divided into six categories, according to the business transparency and conformity to the Russia’s foreign policy lines in their foreign activities. One should remember that this classification is not meant to be exhaustive in nature but rather to outline some of the motives behind the internationalisation of the Russia’s largest corporations (see Figure 5).

Figure 5 The Internationalisation Patterns of Russian Corporations



Patriots refer to the companies that are controlled by the Russian government, comprising mainly the industrial majors in the strategic natural resource-based industries. The purpose of the international operations of the companies such as Gazprom and Rosneft, is to serve the Russian foreign policy at least as much as it is to enhance their own economic performance.

Whereas it can undoubtedly be argued that the political interventions are inseparable part of the activities of these state-controlled companies, the political power of Russian authorities over the private corporations, especially in the strategic natural resource-based sector, should

not be forgotten either. The researchers further argue that until the oil and gas industry, for instance, is not operating on the basis of free market for the exploration licenses and transportation quotas, the companies in the sector continue to carry out the political ambitions of the Russian government, be it in the international business matters or domestic operations.

Conformers include the companies active in seeking international business opportunities and establishing foreign presence to enhance their performance. The companies are, however, taking into account the official policy lines of the Russian government and their internationalisation is carried out according to these, often unwritten, rules. Since the level of political conformity is additionally highly dependent on the strategic significance of an industry, especially the companies in the strategic oil and gas sectors are often obliged to play according to the state goals to remain in business. Due to the fact that the size of a company largely defines its political leverage, this category dominantly includes the major natural resource-based corporations that have gained a strong foothold on the international markets. Adapting to the official policy lines often secures these companies the access to vital assets, such as the exploration licences of natural resource sites and the pipeline infrastructure.

Fugitives include the companies purposefully established for money transfers abroad and capital round tripping. Also the viable companies that are turned into money transferring units behind their facades fall into this category. Transferring capital abroad and then moving it back home through various transfer regions, used to be a common practice throughout the 1990s, but the recent measures taken by the state indicate a radical change in the *laissez-faire* policy of the Yeltsin era. Particularly the recent scandalous events around some oligarchs in Russian oil and metals sector indicate the tightening state policy in the matter.

The *Fugitives'* internationalisation can be seen as a double-edged sword for the Russian economy. Whereas these companies can be significant players both domestically and internationally, their foreign expansion boosts Russian economic well-being. On the other hand, massive capital transfers abroad seriously harm the Russian economy inhibiting the vital domestic investments.

Balancers refer to mostly large-scale companies engaged in international business activities and often even practicing truly global business strategies. The size and strategic nature of these companies' business, however, forces them occasionally to balance between the

business rationality and the governmental interests, i.e. the *Balancers* act according to the government policies when their business interests require them to do so. Apart from the *Conformers*, these enterprises are mostly not as strategically bounded to the government as, for instance, the major actors in the energy sector, nor has the state a direct control over the productive assets of these companies. The *Balancers* category include, for instance, most of the metallurgical companies that are recognised global majors in their business sector, having either established considerable international presence or being engaged in large-scale export activities.

Outlaws are engaged in 'direct' money laundering and illegal activities (e.g. shadow sales of armaments abroad). Illegalities can also be invented by individual managers, when their aim at gaining personal advantage. The owners of these companies are not necessarily aware of the illegal practices employed by the management.

Free marketers comprise the companies, whose overseas activities are not considerably shadowed by political ambitions. The companies are operating either in the less strategic business sectors or are smaller in size, thus remaining relatively irrelevant from a political perspective. These companies are often profitable and employ westernised business practices, seeking strategic growth through their foreign expansion.

It was argued in the beginning of this report that integrating Russian into world economy, and enhancing her international competitiveness, is highly dependent on the level of internationalisation of independent Russian companies. In this context, one can ask whether integrating Russia to world economy is enhanced by all type of foreign expansion of Russian firms, or do some modes of internationalisation exist that inhibit this integration? Whereas it can indisputably be argued that economically-oriented foreign expansion enhances the competitiveness of both the Russian companies and the country as a whole, highly politically motivated expansion represents a different case.

The impact of politically motivated internationalisation is naturally different on Russia and the host countries. Russian political leverage in the CIS, for instance, has all but faded during the past years with practically all the countries in the region being heavily dependent on the Russian (Gazprom's) gas supplies. In this particular case, the position of a dominating supplier, accompanied with the ownership of strategic infrastructure assets in the region, gives

Gazprom and Russia remarkable negotiating power over the issues of trade and politics, with the outcome of often-restrictive practices against the local entities.

It can therefore be argued that both the *Patriot* and *Fugitive* motives can be found behind the internationalisation of Russian corporations, although it becomes harder to estimate which motive is the prevailing one. For the efficient integration of Russia to the world economy, the best solution would indisputably be the strong growth of *Free marketers* group. It remains to be seen whether this option becomes a reality any time soon, given the huge strategic importance of a few natural resource-based industries in the Russian economy. As long as these industrial sectors dominate the internationalisation of Russian corporations, this desired outcome would likely remain wishful thinking. The question rather is, whether the sustainable balance will be found, between the global interests of the Russian state and healthy international development of the country's multinational corporations.

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In addition to the literature sources, articles in various business reviews and numerous Internet sources were quoted.

APPENDICES

Appendix 1 Russia's 100 Biggest Industrial Companies by Net Sales in 2002*

Rank	Company	Industry	Net sales *($ mn)*	Annual growth rate *(%)*	Market capitalisation as of 9/03 *($ mn)*
1.	Gazprom	Oil and gas	19571.0	4.3	28148.8
2.	RAO UES	Electrical energy	16052.6	9.3	13032.2
3.	LUKOIL	Oil and gas	15449.0	13.9	16761.1
4.	YUKOS	Oil and gas	11373.0	20.2	32820.8
5.	Surgutneftegaz	Oil and gas	6407.7	22.6	15524.3
6.	TNK-BP	Oil and gas	6075.4	26.2	5867.9
7.	Sibneft	Oil and gas	4776.7	43.6	13152.8
8.	Russky Aljumini	Non-ferrous metals	3960.0	3.7	
9.	AvtoVAZ	Machine building	3808.4	-8.1	692.9
10.	Tatneft	Oil and gas	3465.9	7.8	2499.8
11.	Norilsk Nickel	Non-ferrous metals	3354.2	-1.7	8528.7
12.	Slavneft	Oil and gas	2718.7	-3.3	2139.4
13.	Rosneft	Oil and gas	2669.0	23	
14.	Sidanco	Oil and gas	2631.3	37.8	3602.4
15.	Magnitogorsk Metal	Ferrous metals	1928.4	27.7	
16.	Severstal	Ferrous metals	1923.6	17.4	2152.2
17.	Alrosa	Precious metals and diamonds	1717.8	-3.5	
18.	Novolipetski Metal Integrated Works	Ferrous metals	1699.5	43.2	
19.	Rosenergoatom	Electrical energy	1690.3	18.7	
20.	Evraz Holding	Ferrous metals	1589.2	23	
21.	Bashneft ANK	Oil and gas	1426.3	-2.5	558.9
22.	UGMK-Holding	Non-ferrous metals	1185.7	8.8	
23.	GAZ	Machine building	1051,6	14.9	95
24.	Komsomolsk-upon-Amur	Machine building	1008.0	-13.9	
25.	MDM Group	Ferrous metals	959.5	10	
26.	TVEL	Machine building	877.0	8.7	
27.	Ilim Pulp	Wood and paper	848.3	23.2	
28.	Wimm-Bill-Dann	Foodstuffs	824.7	31.4	929.3
29.	KamAZ	Machine building	743.1	-5.9	250.3
30.	Kuznetski Metal Works	Ferrous metals	714.3	54.9	
31.	SUAL	Non-ferrous metals	709.3	7.8	558.6
32.	Baltika	Foodstuffs	682.7	38.4	1531.9
33.	Nizhnekamskneftekhim	(Petro)chemical	658.9	13.3	309.8
34.	Mechel	Ferrous Metals	593.6	13.4	142.6
35.	Philip Morris Izhora	Tobacco	584.5	58.6	
36.	Irkutsk Aviation Production	Machine building	562.2	161.7	292.7
37.	Metalloinvest	Ferrous metals	557.6	48.5	
38.	Aerospace Equipment Corporation	Machine building	529.5	37	
39.	Apatit Mining Company	(Petro)chemical	522.8	65.8	9.4
40.	Salavatnefteorgsyntez	(Petro)chemical	519.1	8.7	169.7
41.	Petro	Tobacco	513.5	35.5	
42.	Tatenergo	Electrical energy	504.3	7.3	
43.	Uralwagonozavod	Machine building	474.7	86.5	
44.	Acron	(Petro)chemical	460.8	11.8	
45.	OMZ (UHM)	Machine building	435.4	46.6	252.8
46.	Irkutskenergo	Electrical energy	390.0	20.2	469.3
47.	Vyksunsk Metallurgy Works	Ferrous metals	388.0	6.7	163.8
48.	Cherkizovski Meat Factory	Foodstuffs	383.1	12.5	
49.	Oskol Metal Works	Ferrous metals	370.9	13.4	110.9
50.	Izhmash group	Machine building	367.3	97.7	20.2
51.	Nosta	Ferrous metals	342.2	16.4	24.8
52.	Ufa Motor Production	Machine building	341.3	56.8	66.7
53.	Concern Silovye mashiny	Machine building	337.2	31.7	
54.	Mars	Foodstuffs	336.2	44	
55.	VSMPO-Avisma Group	Non-ferrous metals	322.1	17.5	

56.	Energomashkorporatsiya	Machine building	305.3	13.1	
57.	Syktyvkarski LPK	Wood and paper	302.8	14.5	
58.	Titan	Wood and paper	293.6	8,9	
59.	Ligett-Dukat	Tobacco	286.9	13.8	
60.	Ochakovo Ltd	Foodstuffs	271.6	16.8	
61.	Vanyoganneft	Oil and gas	269.6	2.3	
62.	UAZ	Machine building	267.0	16.5	45
63.	Novosibirskenergo	Electrical energy	266.2	22.6	78.4
64.	Nizhnekamsk Tyre Factory	(Petro)chemical	264.6	4	14.7
65.	Polys	Precious metals and diamonds	257.5	104.9	
66.	Ufaneftekhim	(Petro)chemical	256.9	-8.2	67.5
67.	Lebedinski GOK	Ferrous metals	246.7	9.9	
68.	PO Kristall (Smolensk)	Precious metals and diamonds	246.6	18.2	
69.	Silvinit	(Petro)chemical	245.9	12.4	133
70.	Stinol	Machine building	244.3	26.9	
71.	Chelyabinsk Rolled Pipe Plant	Ferrous metals	242.9	2.8	105
72.	Yakutugol	Coal	239.7	20.9	
73.	Uralkaly	(Petro)chemical	235.8	5.3	151.2
74.	Tulachermet	Ferrous metals	231.2	21.9	
75.	Vorkutaugol	Coal	227.9	15.8	
76.	Kazanorgsyntez	(Petro)chemical	227.5	0.0	58.9
77.	Zavolzhski Motor Plant	Machine building	218.4	31.2	67.1
78.	Avtodiesel (Yaroslavl)	Machine building	214.4	10.1	
79.	Kuzbassugol	Coal	213.2	-8.2	
80.	Agromashholding	Machine building	213.2	2.2	
81.	Svetogorsk	Wood and paper	210.3	24.6	
82.	NPO Saturn	Machine building	204.9	47.6	
83.	Rostselmash	Machine building	204.0	18.5	17.3
84.	Yuzhni Kuzbass	Coal	201.5	11.4	
85.	Ufimski NPZ	Oil and gas	200.2	15	76.3
86.	Kazan Helicopter Plant	Machine building	198.9	-13.3	42.4
87.	Permskye motory	Machine building	198.0	39.3	
88.	Donskoi tabak	Tobacco	195.8	16.8	
89.	Rossia	Foodstuffs	191.4	30.1	
90.	AvtoVAZ Agregat	Machine building	191.3	35.4	
91.	Philip Morris Kuban	Tobacco	190.8	29.3	
92.	Mikoyanovskiy myasokomb.	Foodstuffs	186.9	41.5	
93.	Volga	Wood and paper	184.5	-14.4	
94.	Altai-Koks	Ferrous metals	182.2	39.3	
95.	Tsaritsyno	Foodstuffs	180.6	12.2	
96.	Togliatticaoutchouc	(Petro)chemical	177.9	3.3	
97.	Azot	(Petro)chemical	175.6	-2.1	
98.	Ural Automobile Plant	Machine building	174.8		
99.	Kondopoga	Wood and paper	172.1	-11.7	138.2
100.	Novoufimski NPZ	Oil and gas	171.8	-37.1	69.1

** The figures in Appendices 1 and 2 are provided by Expert Rating Agency and are unedited by the authors. During the research process, the authors have, however, notified some deficiencies and inconsistencies among the data.*

Source: Expert (2003).

Appendix 2 Russia's 100 Largest Exporters in 2001

Rank	Company	Industry	Exports $ mln 2000	Exports $ mln 2001	No. of export countries
1.	Gazprom	Oil and gas	16400.0	13900.0	27
2.	LUKOIL	Oil and gas	6624.5	6218.1	32
3.	YUKOS	Oil and gas	5682.2	5247.5	40
4.	TNK	Oil and gas	5597.3	3477.5	40
5.	Surgutneftegaz	Oil and gas	2356.0	1700.5	13
6.	Russky Aljumini	Metallurgy and mining	2231.2	2161.6	52
7.	Tatneft	Oil and gas	2136.0	2629.5	43
8.	Slavneft	Oil and gas	1762.7	1261.6	25
9.	Norilsk Nickel	Metallurgy and mining	1754.5	2246.9	23
10.	Sibneft	Oil and gas	1650.7	1699.9	29
11.	Rosneft	Oil and gas	1346.7	1298.5	n.d.
12.	Alrosa	Metallurgy and mining	1173.5	883.8	8
13.	Bashneft	Oil and gas	871.7	858.7	21
14.	Magnitogorsk Metal	Metallurgy and mining	827.4	849.2	72
15.	Novolipetski Metal Integrated Works	Metallurgy and mining	697.0	857.0	86
16.	Sibur	(Petro)chemical	690.4	179.3	66
17.	Severstal	Metallurgy and mining	667.7	1066.7	98
18.	SUAL	Metallurgy and mining	575.3	506.4	40
19.	TVEL	Machine building	538.0	458.0	23
20.	Evraz Holding	Metallurgy and mining	505.5	470.8	42
21.	Itera Holding	Oil and gas	435.1	641.9	6
22.	Kuzbassrazrezugol	Coal extraction	375.7	205.6	24
23.	Niznekamskneftehim	(Petro)chemical	355.4	415.8	44
24.	UGMK	Metallurgy and mining	352.7	424.3	36
25.	Metalloinvest	Metallurgy and mining	328.8	257.6	47
26.	Ilim Pulp	Wood processing industry	301.2	340.0	87
27.	Fosagro Apatit Group	(Petro)chemical	257.6	70.1	32
28.	RAO UES	Electricity production	254.1	212.3	12
29.	Acron	(Petro)chemical	246.5	222.2	45
30.	VSMPO-AVISMA Group	Metallurgy and mining	245.5	155.0	35
31.	AvtoVAZ	Machine building	242.3	277.0	38
32.	Kristall (Smolensk)	Metallurgy and mining	220.0	240.0	7
33.	Uralkaly	(Petro)chemical	191.0	242.0	35
34.	Evrohim	(Petro)chemical	187.3	162.2	46
35.	Kazan Helicopter Plant	Machine building	170.8	91.9	14
36.	Volga	Wood processing industry	164.7	151.6	61
37.	Kondopoga	Wood processing industry	161.0	137.3	39
38.	Bashkirneftehim	(Petro)chemical	153.6	442.8	24
39.	Volgograd Aljumini	Metallurgy and mining	151.6	189.9	6
40.	Agrochemical corporation Azot	(Petro)chemical	149.7	125.6	50
41.	Yakutugol	Coal extraction	135.0	140.0	6
42.	Moscow Oil Company	Oil and gas industry	130.7	529.4	11
43.	Metsel	Metallurgy and mining	130.2	99.7	30
44.	Togliattiazot	(Petro)chemical	127.4	165.8	5
45.	Nosta	Metallurgy and mining	117.3	88.9	28
46.	United Metallurgical Combine	Metallurgy and mining	113.4	102.1	37
47.	Syktyvkar Wood Combine	Wood processing industry	110.0	110.0	82
48.	Polyarno Siyanie	Oil and gas industry	105.7	169.1	5
49.	Pipe Metallurgical Company	Metallurgy and mining	105.0	55.8	38
50.	Sibirsky Aluminium	Machine building	100.7	190.0	42
51.	Kuibyshevazot	(Petro)chemical	99.4	104.6	23
52.	Motovilihinskie Plants	Machine building	96.6	n.d.	4
53.	Solikamskbumprom	Wood processing industry	93.1	86.4	64
54.	Titan	Wood processing industry	91.0	130.9	51
55.	Altai Coke	Metallurgy and mining	86.3	16.2	15
56.	Severnaya Neft	Oil and gas industry	83.9	63.1	7
57.	Sayanskhimplast	(Petro)chemical	82.4	86.0	1
58.	Nadvoitsk Aluminium Plant	Metallurgy and mining	75.8	77.7	7
59.	Ulan-Ude Aviation Plant	Machine building	71.6	29.0	6
60.	VMS	Metallurgy and mining	67.7	39.8	18
61.	Kusbassugol	Coal extraction	62.4	35.9	17

62.	VIZ Steel	Metallurgy and mining	61.5	52.5	37
63.	Ural Automobile Plant	Machine building	60.2	20.0	15
64.	Elektrotsink	Metallurgy and mining	54.2	61.8	7
65.	Segeza Pulp Mill	Wood processing industry	53.0	63.2	59
66.	Solikamsk Magnesium Works	Metallurgy and mining	52.6	44.3	17
67.	Continentalinvest	Wood processing industry	51.8	5.5	29
68.	Sukhoy Non-Ferrous Metals Recycle	Metallurgy and mining	48.7	60.0	4
69.	Baikal Ugol	Coal extraction	48.5	n.d.	17
70.	Taganrog Metallurgical Works	Metallurgy and mining	46.0	48.0	33
71.	Novoeniseisk Wood Processing Combine	Wood processing industry	44.4	48.0	18
72.	Podolsk Non-Ferrous Metal Plant	Metallurgy and mining	43.8	22.9	9
73.	Sibmash Holding	Machine building	43.1	--	3
74.	Amur Metal	Metallurgy and mining	41.2	45.4	3
75.	Silovye Machiny	Machine building	40.2	94.5	36
76.	Kaustik	(Petro)chemical	40.2	44.7	23
77.	Terneyles	Wood processing industry	39.1	37.3	3
78.	Vanadium Tula	Metallurgy and mining	38.8	43.9	11
79.	Lesosibirsky Wood Processing Combine	Wood processing industry	38.2	43.5	20
80.	Baikal Wood Processing Combine	Wood processing industry	37.6	52.4	6
81.	Schekinoazot	(Petro)chemical	37.4	45.3	26
82.	Ufahimprom	(Petro)chemical	37.2	35.7	17
83.	Izhstal	Metallurgy and mining	37.1	34.4	35
84.	Solombalskij Wood Processing Combine	Wood processing industry	36.4	44.0	34
85.	Kazanorgsintez	(Petro)chemical	36.1	46.8	22
86.	Moscow Coke Gas Works	Metallurgy and mining	35.4	17.0	18
87.	Mars	Foodstuffs	35.3	26.7	18
88.	Energomash	Machine building	34.0	46.6	30
89.	Serov Ferroalloys Works	Metallurgy and mining	33.2	57.4	11
90.	Metallurg	Metallurgy and mining	32.8	37.2	17
91.	Volzhsky Orgsynthese	(Petro)chemical	32.3	30.4	18
92.	Chelyabinsk Electrolytic Zinc Plant	Metallurgy and mining	32.0	32.8	11
93.	Zeya Wood Processing Combine	Wood processing industry	30.0	n.d.	3
94.	Metal Casting Works	Metallurgy and mining	29.8	n.d.	11
95.	Lipetsk Iron Works Svobovny Sokol	Metallurgy and mining	28.9	9.8	11
96.	Energya (Korolev Rocket and Space Corporation)	Machine building	26.9	67.5	7
97.	Irkutsklesprom	Wood processing industry	26.4	27.0	3
98.	Chelyabinsk Electrometallurgical Combine	Metallurgy and mining	26.3	23.1	9
99.	Soda	(Petro)chemical	26.1	20.9	27
100.	V. P. Glushko SMU Energomash	Machine building	25.9	19.0	2
Total			**62685.3**	**56765.3**	**27 (mean)**

Source: Expert (2003).