International Investment Activities of Russian Corporations

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Abstract

This paper examines the increased presence of Russian companies in the global market place as a direct result of the growing economic importance of the Russian economy. Russian companies in oil and gas, metals, mining, forestry, power generation and distribution, manufacturing, nuclear technology, and agriculture industries are now integral parts of the global economy due to the long recovery and growth of the Russian economy since the 1998 crisis. High oil prices and high commodity have driven economic growth that has now spread to other sectors of the economy that include manufacturing, housing, retail, and office construction, consumer goods, and the provision of services. The high level of growth and opening of the international market place to Russian companies have led to the development of alliances and joint ventures involving Russian domiciled companies, increasing cross-border mergers and acquisitions, and the placement of Russian company equity and debt in the international capital market. This paper provides a description of the current condition of international activities of Russian companies and a theoretical understanding of the forces that have shaped this process.

The international activities and strategic actions of Russian companies are exceptionally important and urgent under current conditions of the transitional basis of the Russian economy, the development of a knowledge economy in Russia, the complexity of the issue, and the limited development of Russian studies in this field. The pace of development of South-North and South-South investment by southern multi-national corporations (MNC) has accelerated due to high commodity prices and shifts in manufacturing industries to southern producers. The resulting high exchange reserves of China, Russia and other transitional (southern) economies and high retained earnings of companies from these Southern economies have led to an increase in the number of cross-border investments. In the case of the Russian economy high oil, natural gas, gold, nickel, aluminum and other commodity prices combined with a tacit approval the Russian government now have allowed Russian MNCs to invest to diversify outside of Russia through mergers and acquisitions and direct investment in greenfield and brownfield opportunities. Another trend of international activities of Russian firms has been for owners to concentrate on maximizing the value of their equity stakes, raising new capital, and diversifying their investment portfolio through the offering of shares, placing bonds, and receiving loans through the international capital markets. This report considers the rise in international activities of Russian firms and the barriers for future development for South – South and South – North investment both from policies of the Russian

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government, international organizations, and foreign governments treatment of Russian firms.

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1. Introduction

The increased presence of Russian companies in the global market place is a direct result of the growing economic importance of the Russian economy. Russian companies in oil and gas, metals, mining, forestry, power generation and distribution, manufacturing, nuclear technology, and agriculture industries are now integral parts of the global economy due to the long recovery and growth of the Russian economy since the 1998 crisis. High oil prices and high commodity have driven economic growth that has now spread to other sectors of the economy that include manufacturing, housing, retail, and office construction, consumer goods, and the provision of services. The high level of growth and opening of the international market place to Russian companies have led to the development of alliances and joint ventures involving Russian domiciled companies, increasing cross border mergers and acquisitions, and the placement of Russian company equity and debt in the international capital market. This paper provides a description of the current condition of international activities of Russian companies and a theoretical understanding of the forces that have shaped this process.

The international activities and strategic actions of Russian companies are exceptionally important and urgent under current conditions of the transitional basis of the Russian economy, the development of a knowledge economy in Russia, the complexity of the issue, and the limited development of Russian studies in this field. The pace of development of South-North and South-South investment by southern MNC has accelerated due to high commodity prices and shifts in manufacturing industries to southern producers. The resulting high exchange reserves of China, Russia and other transitional (southern) economies and high retained earnings of companies from these South economies have led to increase in the number of cross-border investments. In the case of the Russian economy high oil, natural gas, gold, nickel, aluminum and other commodity prices combined with a tacit approval the Russian government now have allowed Russian MNCs to invest to diversify outside of Russia through mergers and acquisitions and direct investment in greenfield and brownfield opportunities. Another trend of international activities of Russian firms has been for owners to concentrate on maximizing the value of their equity stakes, raising new capital, and diversifying their investment portfolio through the offering of shares, placing bonds, and receiving loans through the international capital markets. This paper considers the rise in international activities of Russian firms and the barriers for future development for South – South and South – North investment both from policies of the Russian government, international organizations, and foreign government's treatment of Russian firms.

Improvements in business climate and competitiveness have become priority areas for the Federal Government which is implementing a sweeping administrative reform removing barriers to investment and private sector development. The relevance of investment climate/competitiveness issues is underlined by the closing stages of Russia's accession to WTO which requires removal of administrative, quantitative and non-tariff barriers to trade and investment.

The paper includes analysis of the following issues:

- An analysis of Russian firm activities related to globalization strategies, technology transfer, strategic alliances, M&A with foreign companies, and activities on the foreign capital markets.
- An analysis of Russian government policy with respect to international activities of Russian owned firms that includes outward investment promotion, export promotion, access to international capital markets, and regulations on cross border M&A activity. In the policy analysis a comparison will be made between Russian inward FDI and outward FDI policies and the relationship between major investment partners in the EU, US, China and Russia in terms of reciprocal investment policies.
- Understanding of the factors that influence the development of an effective Russian firm engaged in international activities, which include changes in the model of management, development of corporate governance practices, and other results of international exposure.

The international activities and strategic actions of Russian companies are exceptionally important and urgent under current conditions of the transitional basis of the Russian economy, the development of a knowledge economy in Russia, the complexity of the issue, and the limited development of Russian studies in this field. The principal issues examined include the concept that exposure to international best practices of governance and management will change Russian corporate structures and practice fundamentally and that listing on international capital market will improve corporate governance, financial reporting, internal controls, reduce corporate corruption and bride making, etc.

International strategic investment and management incorporates a set of owner and manager decisions and actions that determines the long run performance of corporations. The domain of strategic management includes the roles and problems of general managers—those who manage multi-business or multi-functional business units. Major topics include: strategic formulation and implementation; strategic planning and decision processes; strategic control and reward systems; resource allocation; diversification and portfolio strategies; competitive strategy; selection and behavior of general managers; and the composition of top management teams. The selection of appropriate international strategy relates to how a corporation selects and implements its corporate strategy.

The corporate strategy can be based on the firm’s overall orientation towards growth, stability or retrenchment (directional strategy), the industries or markets in which the firm competes (portfolio strategy) or the manner in which management coordinates activities, transfers resources, and cultivates capabilities among product lines and business units (parenting strategy). Growth strategies can include strategies that focus either on concentration through vertical growth along a value chain or through horizontal growth with a specific business or diversification through concentric or related growth for existing business operations or by conglomerate growth through the acquisition or creation of diverse business operations. Stability strategies allow for a business to pause and reconsider the risk of their business operations while maximizing operational efficiencies. Retrenchment strategies are typically adopted by mature or ailing firms that need to turnaround business operations that are unsustainable or that use divestment or liquidation methods to remove unproductive operations. In the case of major Russian firms in the period from 2001 to 2007 it is apparent that pursuit of operational efficiency has been crucial and that these firms have used efficiency savings and expanded revenues to reinvest into growth strategies.

The understanding of international strategic management and the international activities of multinational companies utilizes a diverse set of theories and frameworks that have largely been drawn from other disciplines. The international strategy of firms can be framed in regard to the economic development of the home market, the competitive advantage of nations (Porter 1990), cultural model, the Heckscher-Ohlin-Samuelson factor model, the eclectic paradigm (Dunning, 1988), transaction costs (Beamish and Banks, 1987), and diversification (Kim et al., 1989) theories, and institutional theories (Selznick, 1957, Westney, 1993 and Roberts and Greenwood, 1997).

Institution theory has also led to the understanding that firms conform to the institutional environment where they were formed. Government and social institutions have had a significant role in the development of the structure of the firm and shaping its outlook towards international strategic decisions. In studies of multinational corporations (Rosenzweig and Singh, 1991; Peng and Heath, 1996; Khanna and Palepu, 1997; Kostova, 1999; and Guillen, 2000) researchers have found that host country government's institutional regulatory forces shape the structure and strategies of multinational corporation that operate within its boundaries. These MNCs have striven for legitimacy (Kostova and Zaheer, 1999) within the countries that they operate and that the institutional framework of the country of origin shapes the strategic decisions a MNC makes since these decisions are part of a social context and executives of MNCs will incorporate country-specific variables in the strategic decision-making process (Elenkov, 1997).

Russian companies are spreading their wings and investing internationally for the first time. Prior to the 2001 most outward FDI could be classified as capital flight to avoid taxes, the funds were illegally obtained, to avoid appropriation by corrupt officials, results of murky privatization and resale transaction, part of corporate capture and the Russian version of hostile takeover, etc. The trends in outward FDI are three-fold first Russian-based firms are consolidating their former Soviet and Eastern European territory in related industries; secondly, they are investing in developed economies to diversify their portfolios; and thirdly, Russian firms are developing horizontally and vertically integrated multinational corporations to insure access to raw materials and consumer markets.

Russian capital movements are difficult to analysis since Russian firms are less likely to reveal this information due to the general closed business culture in Russia. The nature of opaque ownership structure of Russian firms and the practice of using transfer pricing as a tool to shift cash flow away from Russian tax jurisdiction or to divert flows from other owners has led to great difficulties in analyzing outward FDI of Russian companies. Some studies have been conducted by Russian based researchers including Bulatov (1998, 2001) that examined firm level decisions and national data. Russian MNCs activities have been examined by Liutho (2001, 2005) Liutho and Jumpponen (2003) and Vahtra and Liutho (2005) and focused on companies in oil and gas industry, the intent of Russian international investment, and the interest in Russian companies to diversify their holdings through international investment. Kalotay (2001) found that Russia demonstrate distinct differences from other Eastern European countries since Russia companies intent to develop an international presence immediately and these investments can be characterized as means to safe guard against domestic risk. Outward FDI from Russia can be seen as similar to system escape (Kalotay 2001) investing and in the case of Russia the major firms driving outward FDI are investing abroad due to the characteristics of the Russian business environment.

International investment theory may predict that Russian firms would first invest into their own market place, and, as these firms matured to international levels of development, they would use their firm-specific advantages to invest internationally. But as outward FDI of Russian firms indicates Russian firms are not following this path. In fact, due to the process of privatization and consolidation Russian firms have multinational economies of scale profiles. These large corporations have consolidated the Russian market and compete in industries that are truly international in scale and scope. While their technology, human capital and management skills may not match their international competitors, the profitability of the Russian market with its high barriers to entry by foreign firms has provided significant financial resources at the disposal of many Russian companies. The choice for these firms is either to reinvest in the Russian market or to expand abroad. Russian companies are increasingly investing abroad to diversify their asset base, acquire new technologies and human capital, and hedge against Russia-specific risk.

OFDI undertaken as escape occurs as a response to perceived misalignment between firm interests and home country institutional conditions including legal framework, property rights protection, bureaucratic barriers, etc. In these sets of conditions firms with free cash flow and retained earnings find investing abroad to provide a higher rate of expected returns. Witt and Lewin (2007) found that variations in institutional barriers lead TNCs based in developed economies to “escape” through international investment. Firm level strategy incorporates the institutional barriers in the home country when firms make investment decisions. Boddewyn and Brewer (1994) theorized that escape is part of the business political behavior process that expresses avoidance by firms of political constraints. High taxes were found by Caves (1996) to increase outward FDI. Also societal expectations of social benefits that lead to burdensome home country constraints were found by Schoppa (2006) to influence Japanese firm outward FDI decisions. Escape also happens when firms are unable to secure there investment in the domestic market (Kalotay 2001).

2. FDI Evidence for Russia

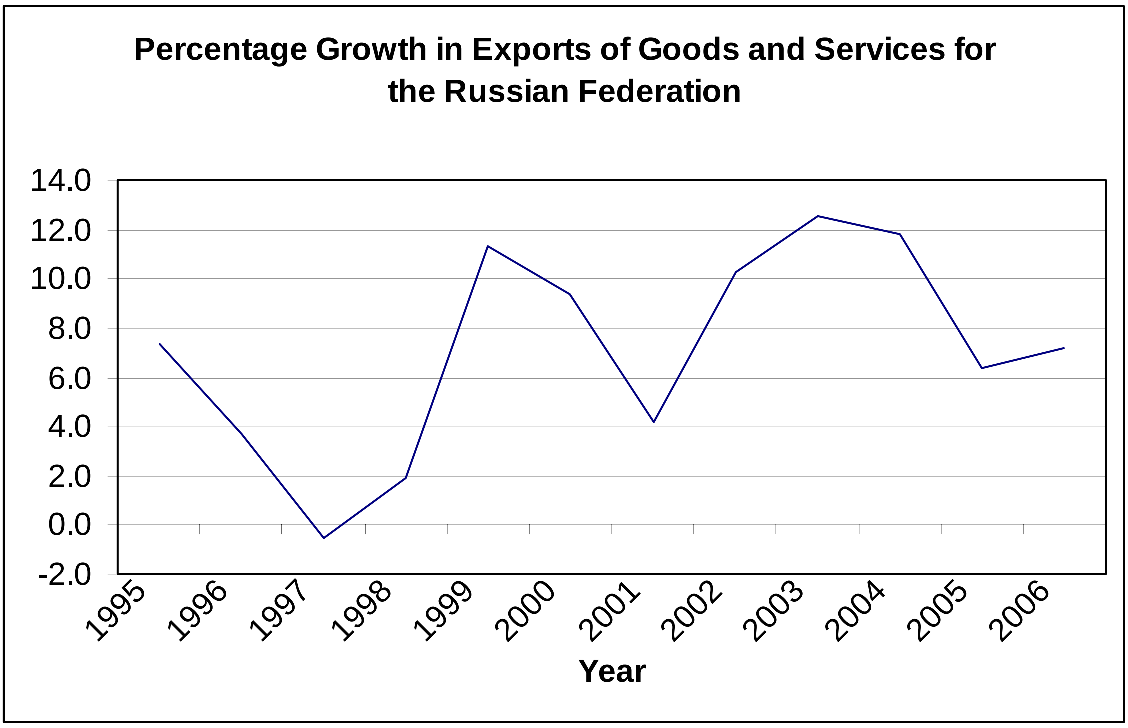
Russian firms such as Gazprom, Lukoil, Rusal, TNK-BP, and Norilsk Nickel, have followed international strategies that have concentrated their operations through both vertical growth and horizontal growth, thus both expanding the reach of these companies and reintegrating operations that were divided during the privatization of the 1990s. Firms implementing a strategy of vertical integration include into their value chain through backward integration of their suppliers and forward integration including distributors and production elements. This form of concentration reduces the transaction costs for the company. In the Russian economy inter-firm transaction costs and reliability of suppliers and distributors play a significant role in the level of firm costs and a vertical integration strategy can significantly increase the level of control and coordination between the stages of production, distribution and sales.

Russian companies such as Lukoil (Lukoil Overseas), Gazprom (attempts at acquisitions of gas pipeline companies in Western Europe), Norilsk Nickel and others have also pursued horizontal concentration strategies both in the Commonwealth of International States (CIS) and internationally in their respective business areas. Horizontal growth opens new markets and allows a firm to access new resources and production capabilities. Geographic diversification within the same business reduces transportation costs.

In the case of international growth strategies the options available to international entry are exporting, licensing, franchising, strategic alliances, joint ventures, acquisitions and mergers, greenfield development, production sharing, and entering the international capital market. Export growth is a strategy that minimizes risk for the company, though in the exporting of commodities such as oil, gas, and metals there does develop a level of co-dependency between exporting firms and consumers. In the exporting of gas by Gazprom there is significant risk related to the decisions of consumer nations choice of future energy policies and the potential long-term return on sunk investments in exploration and production of gas. Licensing and franchising are opportunities to expand internationally through the granting of rights to foreign firms to operate under the brand name of the company using intellectual property and other resources of the firm. Joint ventures and strategic alliances are methods of sharing resources and risk in the establishment of international operations and the application to Russian firms is discussed later in this paper.

Russian firms have engaged in exporting strategies as demonstrated by the percentage growth in exports of goods and services listed in Figure 1. Since the crises year of 1998 export growth has averaged 9.1 percent. The principal exports in 2006 of the Russian Federation have been oil, fuel and gas (64.8 %), metals (13.8%), machinery and equipment (5.8 %) and chemicals (5.6 %) (Country Profile, Economist, 2007).

Figure 1



Source: EBRD Transitions Report 2007, www.erbd.com

Firms can develop a physical presence in a foreign market through strategies that lead to acquisitions, mergers, and greenfield development. Synergistic benefits can be found through the acquisition of firms with a strong complementary product lines and good distribution channels. Acquisitions and mergers also allow for firms to acquire intellectual and human capital that can be used to advance the purchasing company's strengths. The acquisition of Oregon Steel by Evraz was an example of where a Russian firm was able to purchase a specific technology and the human resources necessary to improve the company's product line. Acquisitions and mergers are also methods to acquire state licenses or other resources not available to whole foreign-owned business due to government regulations on ownership. Greenfield development is an alternative that companies use when they do not want to acquire the problems of a foreign company. The development of a company's own production and distribution network allows for higher levels of control but there are greater complications and cost.

A firm may also follow an international strategy through its financing operations. Attracting capital and debt financing from the international market place by listing securities on the international capital market denominated in foreign currencies is a method of diversifying the sources of capital to the firm. The international capital markets in New York and London have lower costs of capital and provide greater liquidity than developing and transitional markets. The drawbacks of this strategy include the extra costs in listing, the increased regulatory compliance, application of international accounting, auditing and internal control standards and entrance of international investors into the monitoring and control functions of the firm. Russian companies have rushed to the international capital markets in the 2003 to 2007 period with over twenty new listings of equity and a record number of new debt issues.

The selection of an appropriate international strategy for a Russian firm depends on the options available to these firms. In the 1990s Russian firms had limited options to create international linkages through strategic alliances, joint ventures, mergers and acquisitions, and access to international capital markets due to the limited economic resources, incentives in the Russian economy, and behavior of owners and top-managers in Russian firms. The market-based reforms of the 1990s led to a reordering of company behavior on the basis of market principles that shifted the incentives from government dependent organizations of the 1980s to assets stripping and income diversion under uncertain privatization period of the 1990s to the current situation of relatively stable market system with protecting of property rights of the 2000s that has led to implementation of growth and sustainability strategies of Russian companies.

The ascent of the Russian Federation to the status of a global investor has been somewhat of a surprise for global observers. The endorsement made during the recent presidential election by the president-elect Dmitri Medvedev for Russian companies to acquire the needed technology and resources in the global market has led to replacement of the soviet era stamen of “We will bury you” to “We will buy you.” Combined with the active investment patterns of Russian MNC in the global market with the impending diversification of the Russian sovereign wealth fund into investments beyond sovereign debt has lead to serious concern about Russian investment. In contrast to other MNCs from the South transitional economies such as China, India, Brazil, and South Africa those have had higher profiles in the global scene than firms from Russia or Ukraine. Russian firms have had a shorter time period to invest in the global market and have less experience functioning in competitive markets.

Russian firms have actively participated in the global market since only the early 1990s and Russian remains a country with a relatively low competitiveness index (58 out of 131), even lower business competiveness index of 71, and a very low institutions ranking (116) according to the 2007-2008 Global Competiveness Report of the World Economic Forum. According to UNCTAD data summarized in Table 1 countries such as Brazil, Argentina, South Africa, and Mexico were well-positioned in 1980 (ranked 1st, 3rd,4th, and 5th for FDI stock in 1980) for expanding their investment in the global market. But only Taiwan, China (ranked 2nd in 1980) remains in the top five in 2005 (ranked 5th) with China and its economic sphere of influence dominating in terms of outward FDI stocks represented by Hong Kong, China (1st) and China (7th), Taiwan, Province of China (5th) and Singapore (4th). Russia by 2005 has overtaken mainland China to reach the third position with over $120 billion in outward FDI stocks.

According to the data of the Russian Central Bank, the outward FDI stock of the Russian Federation increased from US$ one billion in 1999 to US$ 120 billion in 2005, making it the 20th most important source economy of investment worldwide (Kalotay, 2007). Moreover, if those numbers are correct, the growth rate was by far the fastest in the Russian Federation, faster than in other newly emerging source countries, such as India, or rapidly expanding ‘offshore’ centers, such as the British Virgin Islands and Luxembourg. In comparison to other developing and transitional economies the Russian Federation is ranked third in 2005. The “offshore” havens such as the British Virgin Islands, Cyprus and Luxemburg may also be seen as roundtrip locations for Chinese and Russian FDI so the Russian Federation numbers are likely still underreported.

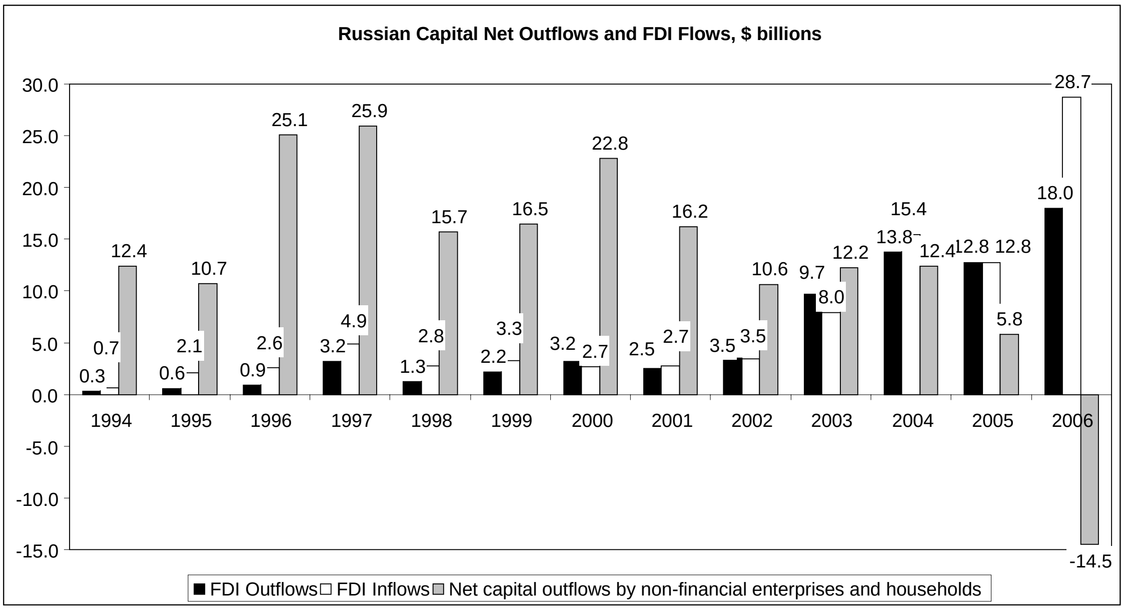
Table 1. Top 15 developing and transition economies in terms of stocks of outward FDI, 1980, 1990, 2000 and 2005. (millions of dollars)

Rank	Economy	1980	Economy	1990	Economy	2000	Economy	2005
1	Brazil	38 545	Brazil	41 004	Hong Kong, China	388 380	Hong Kong, China	470 458
2	Taiwan, Province of China	13 009	Taiwan, Province of China	30 356	Taiwan, Province of China	66 655	British Virgin Islands	123 167
3	Argentina	5 970	South Africa	15 004	British Virgin Islands	64 483	Russian Federation	120 417
4	South Africa	5 541	Hong Kong, China	11 920	Singapore	56 766	Singapore	110 932
5	Mexico	1 632	Singapore	7 808	Brazil	51 946	Taiwan, Province of China	97 293
6	Kuwait	1 046	Argentina	6 057	South Africa	32 319	Brazil	71 556
7	Libyan Arab Jamahiriya	870	China	4 455	China	27 768	China	46 311
8	Panama	811	Panama	4 188	Korea, Republic of	26 833	Malaysia	44 480
9	Bermuda	727	Kuwait	3 662	Malaysia	22 874	South Africa	38 503
10	Singapore	623	Mexico	2 672	Argentina	21 141	Korea, Republic of	36 478
11	Bahrain	598	Malaysia	2 671	Cayman Islands	20 553	Cayman Islands	33 747
12	Botswana	440	Korea, Republic of	2 301	Russian Federation	20 141	Mexico	28 040
13	Bahamas	285	Saudi Arabia	1 873	Bermuda	14 942	Argentina	22 633
14	Saudi Arabia	239	Bermuda	1 550	Chile	11 154	Chile	21 286
15	Malaysia	197	Libyan Arab Jamahiriya	1 321	Mexico	8 273	Indonesia	13 735
	All developing and transition economies	72 307	All developing and transition economies	148 913	All developing and transition economies	893 102	All developing and transition economies	1 399 963

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)

The balance between FDI inflows and outflows has grown in absolute quantity as Russia's GDP has increased. During the period from 1994 to 2006 FDI inflows increased forty times while FDI outflows have increased sixty fold. During this same period Russia has suffered from significant capital flight as indicated by total and net capital outflows. These capital net outflows were most significant in the years between 1996 and 2000 but with the stabilization of ownership rights and the economic recovery in Russia starting at the beginning of the Putin era greater investment is occurring in Russia. By 2006 the Russian Central Bank reported a negative net capital outflow of 14.5 billion USD for the first time. Figure 2 provides an overview of these changes in FDI and net capital outflows. While this change in the current accounts has led to increase pressure on monetary policy and perhaps greater inflation this data indicates that Russian business is beginning to make greater investments in Russia.

Figure 2.



Source: UNCTAD, Central Bank of Russia

Table 2 provides and overview of offshore tax havens that may be used by Russian individuals and firms to channel their investments and facilitate capital flight from Russia. The British Virgin Islands seems to be the primary conduit for international roundtrip due to favorable tax laws, corporate registry, corporate law and the fact that the BVIs fall under the UK legal system for corporate law but not under the FSA or EU regulations. The following Table 2 outlines the use of these jurisdictions as “roundtrip” investment vehicles. Cyprus is widely believed to be an economy wherein Russian capital has exited the country and then been reinvested in Russia or in other economies. The growth of Outward FDI stocks in Cyprus from $206 million to nearly $4 billion between 1998 and 2006 indicates that Cyprus is an important center of internal finance since it is doubtful that those purchases of outward FDI has been supported solely by the growth of the Cyprus economy. The two major players in this “roundtrip” market are the British Virgin Islands and the Cayman Islands with BVIs increasing their Outward stock from almost zero in 1990 to $123.5 billion in 2006 and the Cayman over the same period from nearly zero to $40.4 billion.

Table 2. Offshore Tax Havens That May Have Been Used by Russian and Others, Outward FDI stock, by Economy, 1993 – 2006
(Millions of US dollars)

Region/economy	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Cyprus	50	56	72	107	135	206	388	560	810	1 279	2 050	3 190	3 260	3 992
Luxembourg	..	..	4 703	4 695	5 022	7 983	8 468	7 927	8 810	18 140	21 355	27 883	33 410	35 658
Bermuda	29 383	30 503	31 641	30 616	32 832	32 636	56 246	64 152	51 399	50 940	48 398	51 653	42 234	46 186
Liberia	1 229	1 243	1 370	1 031	1 466	713	1 117	2 188	1 631	1 741	1 980	2 274	2 929	3 237
Panama	5 111	5 116	5 484	7 184	9 037	11 010	11 511	10 507	11 404	13 457	16 700	18 467	20 061	21 176
British Virgin Islands	7 348	9 177	12 474	15 034	19 207	22 091	32 673	67 132	90 847	101 423	107 497	112 375	120 549	123 512
Cayman Islands	1 106	1 118	1 384	2 235	6 042	9 284	13 139	20 788	28 223	22 446	27 812	31 674	38 445	40 395

Source: UNCTAD

Russia has grown in its acquisition of stocks of outward FDI faster than its revivals within the BRIC group of countries and has outperformed most of the transitional economies overall since 1993. The following Table 3, Table 4, and Table 5 summarize the growth of outward FDI stocks and flows. Russia’s average growth rate in stock of outward FDI has increased by 42.18% since 1993 and by 53.94% since 2000 during Putin’s presidency and after the recovery from the 1998 financial crisis. In comparison, China’s outward stock has grown by only 14.34% since 1993 (from a larger base) and 16.51% since 2000 and Hong Kong’s has grown 28.99% since 1993 (from a larger base) and 12.98% since 2000. In 1981 India had a stock of outward FDI larger than China’s reported stocks and about half of what Hong Kong possessed. The following table indicates that there has been major strides forward by Indian companies in the global market with investments from Mital and Tata and India’s growth rate has nearly matched Russia’s at 37.54% since 1993 and 34.27% since 2000 absolute amount of stocks as the following Table 3 indicates.

Table 3. BRIC Countries in terms of stocks of outward FDI, since 1998 Asian/Russian Financial Crisis 1980, 1990, 2000 and 2005. (millions of dollars)

Region/economy	1998	1999	2000	2001	2002	2003	2004	2005	2006
Brazil	47 974	49 665	51 946	49 689	54 423	54 892	69 196	79 259	87 049
Russian Federation	8 866	9 553	20 141	44 219	62 350	90 873	107 291	138 845	156 824
Hong Kong, China	223 811	321 636	388 380	352 602	309 430	339 649	403 094	471 289	688 974
China	25 078	26 853	27 768	34 654	37 172	33 222	44 777	57 206	73 330
India	706	1 707	1 859	2 616	4 007	5 826	7 759	10 033	12 964

Source: UNCTAD

FDI outflows from the South-East Europe and the CIS region grew for a fourth consecutive year in 2005, reaching $15 billion, with the Russian Federation alone responsible for 87% of the total outflows.

An analysis of FDI Outward Stocks of Transitional Economies indicates that by 2005 Russia has become significant actor in FDI stocks and third in transitional economies with $120.417 Billion in Outward FDI stocks. There may also be some Russian investment through the second-rated transitional economy the British Virgin Island ($123.167 Billion) since there are Russian controlled companies that are registered in the BVIs such as TNK-BP and other holding structures. This is a significant shift since 2000 when Russia was ranked 12th with only $14.942 Billion in outward FDI stocks.

Table 4. Outward Flows of Foreign Direct Investment (FDI) of Russian Corporations.

Foreign Direct Investment (FDI) overview, selected years

(Millions of Dollars and Percentages)

FDI Flows	1990-2000 (Annual Average)	2002	2003	2004	2005	*as a percentage of fixed capital formation* 1990-2000 (Annual Average)	2003	2004	2005
Russian Federation									
Inward	**2 373**	**3 461**	**7 958**	**15 444**	**14 600**	**4.5**	**10.0**	**14.3**	**10.5**
Outward	***1 582***	***3 533***	***9 727***	***13 782***	***13 126***	***3.1***	***12.3***	***12.8***	***9.5***
China									
Inward	30 104	53 743	53 505	60 630	72 406	11.3	8.6	8.0	9.2
Outward	*2 195*	*2 518*	*-152*	*1 805*	*11 306*	*1.0*	*-*	*0.2*	*1.4*
Poland									
Inward	3 699	4 131	4 589	12 873	7 724	11.8	11.6	28.4	14.6
Outward	*51*	*230*	*305*	*794*	*1 455*	*-*	*0.8*	*1.8*	*2.7*
United States									
Inward	108 513	74 457	53 146	122 377	99 443	6.8	2.6	5.5	4.0
Outward	*92 010*	*139 946*	*129 352*	*222 437*	*-12 714*	*.1*	*6.4*	*9.9*	*-0.5*
Commonwealth of Independent States									
Inward	3 966	9 035	15 736	29 295	27 234	5.5	14.1	17.5	14.7
Outward	*1 651*	*4 687*	*10 731*	*13 973*	*15 056*	*1.9*	*7.8*	*7.6*	*6.6*
South-East Europe and the Commonwealth of Independent States									
Inward	5 569	12 911	24192	39 577	39 679	6.2	16.9	20.9	17.0
Outward	*1 401*	*4687*	*10 731*	*13 973*	*15 956*	*1.9*	*7.8*	*7.6*	*6.6*
World									
Inward	495 391	617 732	557 869	719 755	916 277	7.6	7.3	7.7	9.4
Outward	*492 566*	*539 540*	*561 104*	*813 068*	*778 725*	*7.7*	*7.4*	*9.3*	*8.3*

Source: UNCTAD

Russia has become in a relatively short period a major holder of FDI stocks. Table 5 summarizes Russians investment as compared to other transitional economies such as China, Poland, the Commonwealth of Independent States and South East Europe. From 2000 to Russia outward FDI stocks have increased nearly 500% and by 2005 comprise 97% of all outward FDI stocks held by Commonwealth of Independent States. The Russia Federation is significantly ahead of China (mainland) in holding outward FDI stocks (though the Hong Kong that, had 330 billion USD in outward FDI stocks in 2005, has been a conduit for outward FDI from China). The Russia Federation has also out paced Poland, a transitional economy that has joined the EU in 2004, in the acquisition of outward stocks of FDI. While countries like Poland have been recipients of significant quantities of FDI there economies seem to be following the traditional path in the pattern of outward FDI.

Table 5 Russia FDI Stocks

Foreign Direct Investment (FDI) Stocks overview, selected years

(Millions of Dollars)

FDI Stocks	1980	1990	2000	2004	2005
Russian Federation					
Inward	- -	- -	**32 204**	**117 891**	**132 491**
Outward	- -	- -	***20 141***	***107 291***	***120 417***
China					
Inward	1 074	20 691	193 348	245 467	317 873
Outward	- -	*4 455*	*27 768*	*35 005*	*46 311*
Poland					
Inward	- -	109	34 227	85 605	93 329
Outward	*312*	*408*	*1 018*	*3 216*	*4 671*
United States					
Inward	83 046	394 911	1 256 867	1526 306	1 625 749
Outward	*215 375*	*439 521*	*1 316 247*	*2 063 998*	*2 051 284*
Commonwealth of Independent States					
Inward	- -	9	55 223	171 225	199 151
Outward	- -	- -	*20 884*	*109 125*	*123 719*
South-East Europe and the Commonwealth of Independent States					
Inward	- -	121	70 306	222 486	255 713
Outward	- -	*191*	*22 054*	*111 624*	*126 345*
World					
Inward	561 403	1 789 303	5 802 933	9 544 887	10 128 739
Outward	*571 228*	*1 791 092*	*6 471 435*	*10 325 240*	*10 671 889*

Source: UNCTAD

3. FDI Outward Stocks of Transitional Economies

The identification of the largest Russian outward investing firms and their peers from developing countries can use internationally-agreed company lists and UNCTAD data. In the Fortune Global 500 list complied at the end of 2005, for example, there were 63 headquartered in emerging economies: nine in the Republic of Korea, eight in India and Saudi Arabia each, seven in Hong Kong, China (including firms from China), and six in Brazil and the Russian Federation each (Kalotay, 2007). Gazprom was the largest emerging-market firm, Lukoil was 8th, and Surgutneftegas 9th, though PetroChina's one trillion-dollar market valuation after its November 2007 listing does seem to change the order in favor of Chinese firms as far as market value. The Expert 400 list (Expert, 2005) provides an overview of the 15 largest Russian firms, ranked by market capitalization. The Table 6 lists the FDI activities of Russian firms.

Table 6

Russian based firms presence in the top 10 non-financial TNCs from South-East Europe and CIS[a], ranked by foreign assets, 2004

(Millions of dollars and number of employees)

	Ranking by:			Foreign			TNI[b]
Corporation	**Foreign assets**	**TNI[b]**	**Industry**	**Assets**	**Sales**	**Employment**	**(Percent)**
Gazprom	1	--	Petroleum and natural gas	--	24 536	--	--
Lukoil	2	5	Petroleum and natural gas	7 792	26 408	13929	37.8
Norilsk	3	7	Mining & quarrying	1 413	5 968	1 772	32.2
Novoship Co.	4	2	Transport	1 296	350	55	58.9
Rusal	6	6	Metal & metal processing	743	4 412	5 490	33.7
OMZ	7	4	Motor vehicles	347	271	8 484	42.9
Severstal	9	9	Metal & metal processing	174	3 954	7 098	25.0

Mechel	10	8	Metal & metal processing	120	2 203	10 689	25.6

Source: UNCTAD, WIR 2006
Notes:
[a] Based on survey responses and annual reports collected by UNCTAD
[b] TNI, the Transnationality Index, is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment

The emergence of the Russian Federation as a major source of outward FDI runs counter to existing paradigms on international investment. Russian multinationals have reached different stages of company development, have integrated international management practices and corporate governance procedures at widely different adoption levels, and have a range of human and financial capital resources at their disposal. The Russian multinationals include a wide spectrum of state-owned majors, to privately owned conglomerates holding former state assets and newly established companies with international shareholders. The expansion drive for Russian MNCs began in the near abroad and traditional Eastern European markets though the pattern is expanding to investments in resources in Africa and Central Asia, expansion of markets in CIS and developing economies, and acquisitions of production and technology in developed market. These outward FDI activities coupled with financial activities of Russian MNC has created a Russian global presence. Table 7 is a summary of foreign assets of Russian firms.

Table 7: Major Corporation are Major Players in FDI Outflows

Ranking of Top 25 Russian multinationals, terms of foreign assets, 2006 (millions of dollars)			
Rank	**Name**	**Industry**	**Foreign assets**
1	Lukoil	Oil & Gas	18,921
2	Gazprom	Oil & Gas	10,572
3	Severstal	Metals & Mining	4,546
4	Rusal	Metals & Mining	4,150
5	Sovcomflot	Transportation	2,530
6	Norilsk Nickel	Metals & Mining	2,427
7	AFK Sistema	Telecommunications	2,290
8	Vimpel Com	Telecommunications	2,103
9	Novoship	Transportation	1,797
10	TNK-BP	Oil & Gas	1,601
11	Evraz	Metals & Mining	1,322
12	FESCO	Transportation	1,074
13	PriS Co	Transportation	1,055
14	Novolipetsk Steel	Metals & Mining	964
15	RAO UES	Energy	514
16	TMK	Metals & Mining	490
17	Eurochem	Agri-chemical	456
18	GAZ	Manufacturing	366
19	OMZ	Manufacturing	354
20	Alrosa	Metals & Mining	294
21	ChTPZ	Metals & Mining	244
22	Alliance Oil	Oil & Gas	211
23	Acron	Agri-chemical	200

24	Euroset	Retail	147
25	Mechel	Metals & Mining	116
Total			58,744

Source: SKOLKOVO-CPII survey of Russian multinationals

As Table 7 indicates there is a concentration of the acquisition of foreign assets in major Russian companies with Lukoil, Gazprom, Severstal, Rusal, etc playing the dominate role. In following section specific cases of investment are examined and the data is updated to reflect increased investment in 2007 and the first half of 2008. As Russian companies benefited from the commodities price boom and rapidly growing Russian economy they have invested internationally.

4. International Activities of Major Russian Firms

Russian MNCs have expanded internationally in the following principle industries: metals and mining, oil and gas, and telecommunications and IT. The patterns of outward FDI fall into three basic categories (1) ownership of assets in the CIS and Eastern Europe, (2) new investment into CIS and other near abroad countries to expand market share or (3) investment globally to acquire technology, assure access to resources or to integrate into the global markets. Russian MNCs that follow the last pattern of outward FDI have followed both paths of acquisition of existing companies and greenfield investments and typically have international, professional boards of directors and international management while those that are following the first two patterns typically have only Russian board members and Russian management structures. The case of Severstal is an excellent example of a MNE that has transformed its board of directors and management form to better meet the global challenge of effective investment abroad. In 2006 it attempted to merge with Accelor, a Luxembourg based publicly listed company. At the time the board of directors was all Russian with one non-dependent director and in principle a Russian management team reporting to the primary shareholder. The corporate governance practices at the time were one point in the rejection of the merger by Accelor shareholders. Since that time Severstal has listed on the LSE, changed its board and management team that now has the largest number of international professional directors of LSE listed Russian-based firms. And since 2006 Severstal has had a better record in its international acquisitions.

4.1 Mergers and Acquisitions

Russian TNCs have been heavily involved in cross boarder mergers and acquisitions through out the CIS and now increasingly in developed economies. Russian investors have generally been welcomed in the CIS and Africa, while facing a strong degree of suspicion in most parts of Eastern Europe and in the developed world (EIU, 2006) . On the ground, however, Russian investors have frequently transformed bankrupt enterprises into thriving companies, and are regarded as effective owners and employers. The rapid pick-up in Russian investment abroad is driven by a wide range of factors: for example, gaining critical mass to survive consolidation; getting access to new markets, raw materials, technology transfer and management know-how; coping with excess liquidity and lack of expansion opportunities at home (EIU, 2006).

Table 8 outlines the cross border M&A activity that Russian firms have been engaged in from 2004 to 2006. Companies such as MTS, Vimplecom and Altimo have used their experience in telecommunications to extend these businesses into markets that have lower saturation rates than Russia building on their experience in the Russian market. Russian companies, such as Ervaz Group (previously Evraz Holding), Lukoil, Severstal, and Rusal are expanding their holdings to access new markets, new technologies or broadens their production or resource base.

Table 8: Major Acquisitions by Russian Companies

Russian company	Acquired company	Country	Sector	Stake	Transaction value $m	Year
Altimo	Turkcell	Turkey	Telecoms	13.2%	3,200	2005
Amtel	Vredestein	Netherlands	Tires	100.0%	289	2005
Evraz Holding	Vitkovice Steel	Czech Republic	Steel	100.0%	287	2005/06
Evraz Holding	Palini e Bartoli	Italy	Steel	75.1%	678	2006
Evraz Holding	Strategic Minerals Corporation	United States	Steel	73.0%	110	2006
Evraz Holding	Highveld Steel	South Africa	Steel	79.0%	678	2006
Lukoil	Nelson Resources	Canada/Kazakhstan	Oil & gas	100.0%	2,000	2005
Lukoil	Teboil & Suomen Petrooli	Finland	Oil & gas	100.0%	270	2005
Lukoil	Mobil	US	Oil & gas	100.0%	266	2004
MTS	Uzdunorbita	Uzbekistan	Telecoms	74.0%	121	2004
Norilsk Nickel	Gold Fields	South Africa	Mining	20.0%	1,200	2004
OMZ	Skoda Steel and Skoda JS	Czech Republic	Heavy engineering	100.0%	200	2004
Renova	United Manganese of Kalahari	South Africa	Mining	49.0%	na	2004
Rusal	Queensland Alumina	Australia	Aluminum	20.0%	460	2005
Rusal	Alumina Company of Guinea	Guinea	Aluminum	100.0%	na	2006
Rusal	Alscon	Nigeria	Aluminum	77.5%	250	2006
Rusal	AMC	Guyana	Aluminum	90.0%	22	2005/06
Severstal	Rouge Steel	US	Steel	100.0%	286	2004
Severstal	Lucchini Group	Italy	Steel	62.0%	574	2005
Vimpelcom	Kar-Tel	Kazakhstan	Telecoms	100.0%	425	2005
Vimpelcom	URS	Ukraine	Telecoms	100.0%	235	2005
Vimpelcom	Mobitel	Georgia	Telecoms	51.0%	13	2006

Source: The Russians Are Coming: Understanding Emerging Multinationals (EIU, 2006: 10)

A more detailed look at 2004-2005 cross-border M&A transaction indicates that the major transaction during this period was in the oil and gas industry (the 2.13 billion USD Lukoil take over of Nelson Resources Limited) while the next tier of investments ranged from 200 billion USD to 550 billion USD and were based in industries that Russian companies have developed comparative advantages such as metals, telecommunications in CIS countries, and oil and gas. These investments either secured new markets, resources, or technology to improve the production process.

Table 9: The top 20 Cross-border M & A transactions for 2004-2005

	Year	Object of Transaction	Sold to	Industry	The transaction, $ million
1	2005	100% of the shares of Nelson Resources Limited (Bermuda)	LUKOIL	Oil and Gas	2130.0
2	2005	62% of Lucchini (Italy)	OAO Severstal	Metallurgy	Estimated 560.0
3	2004	100% of OAO KaR-Tel "(Kazakhstan)	OAO VimpelCom	Telecommunications	Estimated 425.0
4	2005	98.96% stake in Vitkovice Steel (Czech Republic)	"EvrazHolding"	Engineering	Estimated 286.0
5	2005	100% of the shares of ZAO Ukrainian Radio "(trademark WellCom) (Ukraine)	OAO VimpelCom	Telecommunications	231.3
6	2005	100% of the shares Vredestein Bande	Amtel Holdings Holland N.V.	Chemical	230.0
7	2004	Control stake in OAO Uzpek "(Uzbekistan)	ZAO Soyuzneftegaz	Oil and Gas	Estimated 200.0
8	2005	100% of the shares in Oy Teboil Ab and Suomen Petrooli Oy	"LUKOIL-Finlyandiya"	Oil and Gas	160,0
9	2004	Centromet (Switzerland)	MAIR "NG"	Metallurgy	Estimated 160.0
10	2004	Skoda JS, Skoda Kovarny and Skoda Hute (Czech Republic)	The "OMZ-Power Machines"	Engineering	Estimated 150.0
11	2004	74% of Uzdunrobita (Uzbekistan)	OAO Mobile TeleSystems	Telecommunications	121.0
12	2004	50% of in LUKAgip N.V. (Azerbaijan)	LUKOIL	Oil and Gas	Estimated 120.0
13	2005	100% of the shares of ZAO "Moldavskaya GRES" (Moldovia)	RAO UES of Russia "	Electricity	Estimated 100.0
14	2004	51% of the shares Kvazar-Micro Corporation B.V. (Ukraine)	Concern "Science Center"	IT	Estimated 100.0
15	2005	65% of Kombinat Aluminijuma Podgorica (Montenegro)	Salomon (one of the "basic element")	Metallurgy	89.5
16	2005	100% of Korsnas Packaging (Sweden)	OAO Segezhsky Pulp	Pulp and Paper	80.0
17	2005	75% + 1 share of Palini e Bertoli (Italy)	"EvrazHolding"	Metallurgy	Estimated 80.0
18	2005	100% of the shares of ZAO "Electrical Network of Armenia"	RAO UES	Electricity	73,0
19	2005	100% of Skoda Machine Tool (Czech Republic)	"Stanko Impex"	Engineering	70.0
20	2005	100% of OAO Balakleysky cement plant (Ukraine)	OAO Evrotsement Group	Construction	Estimated 70.0

By 2006 the M & A transactions had significantly increased in the size of transactions as summarized in table 10. Rusal consolidation of the aluminum industry in Russia and creation of a global rival to Alcoa and Alcan incorporated the assets of Glencore in a $3.6 billion merger. Ervaz gained control of important technology and production facilities in its 2.3 billion USD purchase of Oregon Steel Mills. There continued to be a push by VimpelCom into CIS countries.

Table 10: Ten largest M & A transactions for Russian Firms buying Foreign Firms for 2006

№	The object and purpose of the transaction	Location of the facility	Buyer	The amount of the transactions ($ million)	Date of	Industry
1.	Aluminum assets of Glencore	Switzerland	"Russian Aluminum"	3600.0	October	Metallurgy
2.	100% of Oregon Steel Mills	USA	Evraz Group SA	2300.0	November	Metallurgy
3.	50% in 22 companies Duferco	Companies in Belgium, France, USA and Italy	Steel Invest & Finance SA (50% - quarter, 50% - Duferco Group)	805,0	November	Metallurgy
4.	90% of the shares of ZAO ArmenTel "	Armenia	OAO VimpelCom	496.5	November	Telecommunications
5.	56.16% stake Eurallumina SpA	Italy	OAO Russian Aluminum	420.9	August	Metallurgy
6.	Mixtures business OM Group	The plants in Finland and Australia	MMC Norilsk Nickel	408.0	November	Metallurgy
7.	77.5% of Aluminum Smelter Company of Nigeria	Nigeria	OAO Russian Aluminum	250.0	December	Metallurgy
8.	100% "Unitel"	Uzbekistan	OAO VimpelCom	207.7	February	Telecommunications
9.	51% of Intracom Telecom	Greece	JSC Concern Sitronics	152.4	May	Telecommunications
10.	100% of the LDV Holdings	Britain	OAO GAZ "	130.0	July	Engineering

4.2 International of Russian Companies

Oil and Gas Industry
LUKOIL OAO has a long history of international activity which is partially based on how the company was formed during privatization and the adoption of an early and active international strategy to secure hydro-carbon reserves. LUKOIL has a significant international strategy that is listed in its company information and has been observed by UNCTAD as one of the world's largest MNCs. Established in 1991, transformed into an open joint-stock company in 1993 and privatized from 1994 on, it carries out international exploration and production in Azerbaijan, Columbia, Egypt, the Islamic Republic of Iran, Iraq, Kazakhstan, Saudi Arabia, Uzbekistan and Venezuela, refining in Bulgaria, Romania and Ukraine, and downstream distribution affiliates worldwide in at least 15 countries including a major retail chain in the US.

LUKOIL's international assets have reached approximately USD 19 billion out of USD 48.2 billion of total assets.[2]

In terms of internationalization of LUKOIL in 1995 U.S. oil major Atlantic Richfield Company (ARCO) became a major shareholder and strategic partner with an 8% ownership stake and extension to LUKOIL of a multi-billion USD credit for redevelopment of the company. After the 1999 acquisition of ARCO by BP the ownership stake transferred to BP. In 2001 BP sold the stake considering it too small to be effective in influencing the management of LUKOIL. A partnership was created with the US based super major ConcoPhillips in 2003 with ConcoPhillips taking 7.9% stake through acquisition, in part, of the remaining Russian government stakes of LUKOIL. The shares of LUKOIL have been placed as deposit receipts since 1996 when American Deposit Receipts (ADRs) based on LUKOIL shares were placed on the international market. These were over-the-counter (OTC) ADRs but after discussions both in London and New York in 2002 LUKOIL became the first Russian company with a full secondary listing on the London Stock Exchange. A 5.9% government stake in LUKOIL was placed on the London Stock Exchange Main Market.

Lukoil entered into a series of international exploration and development projects beginning in 1994 with involvement in the Azeri–Chirag–Guneshli project in Azerbaijan. The 1990s Lukoil became involved in the following projects: Kumkol in Kazakhstan (1995), Meleiha in Egypt (1995), Shakh Deniz in Azerbaijan (1996), Karachaganak and Tengiz in Kazakhstan (1996) and the West Qurnah-2 (1996) in Iraq, D-222 in Azerbaijan (1998), WEEM in Egypt (2001), West and North- East Geisum in Egypt (2003), Anaran in Iran (2003), Tyub-Karagan and Atashsky Kazakhstan (2004), the Block A gas project in Saudi Arabia (2004) and the Kandym – Khauzak – Shady gas project in Uzbekistan (2004). Lukoil divested itself of it stake in the Azeri–Chirag–Guneshli project in 2003 and exits the Zykh-Govsany project in Azerbaijan in 2005.

LUKOIL has also pursued an aggressive acquisition plan with its largest acquisition to date being the 2005 purchase of Canada-based Nelson Resources Limited which has interests in four production projects in Kazakhstan. In 1998 LUKOIL had began the process of acquiring down stream assets such as the Romanian oil refinery Petrotel and in 1999 gaining a controlling stakes of KomiTEK, the Odessa Refinery in Ukraine and the Burgas Refinery in Bulgaria. As part of restructuring its the activities in Kazakhstan, LUKOIL signs an agreement with Mittal Investments on sale of a 50% stake in Caspian Investments Resources (former Nelson Resources), which is 100% owned by LUKOIL Group. Value of the deal is $980 million. Mittal Investments also assumes commitments to pay 50% of outstanding debt of Caspian Investments Resources to the Group, totaling about $175 million at the time of the deal.

LUKOIL entered the US retail market in 2000 through the acquisition of the Getty Petroleum Marketing Inc. that added 1,300 filling stations in the North-East. This network was expanded through the purchase of 779 filling stations from ConocoPhillips in the US states of New Jersey and Pennsylvania in 2003. In Europe LUKOIL acquired, in 2003, a controlling interest in the Serbian company Beopetrol,

[2] SKOLKOVO – CPII ranking

which controls about 20% of the retail fuel market in Serbia along with expansion into Finland (2005) through acquisition of Oy Teboil Ab and Suomen Petrooli Oy companies engaged in petroleum product wholesale and retail sale as well as in production and sale of lubricants, the opening of retail station in Macedonia (2006), and entering into an agreement in 2006 to acquire the retail business of ConocoPhillips consisting of 376 filling stations in Belgium. Also in downstream sector LUKOIL and the company Oriana jointly formed the petrochemicals enterprise, LUKOR, as a private joint-stock company in 2001. LUKOIL increases its ownership of LUKAgip to 100% by acquisition of 50% previously owned by ENI Group in 2003.

LUKOIL has also been aggressive in the formation of joint ventures with foreign-based companies. As part of its strategic alliance with ConocoPhillips, LUKOIL set up a joint venture, Naryanmarneftegaz, for development of hydrocarbon reserves in the Timan-Pechora region. LUKOIL and the Kazakh oil and gas company KazMunaiGaz signed founding documents of a joint venture, Caspian Oil & Gas Company, for development of the Khvalynskoye field (Caspian Sea). In 2006 LUKOIL and the Norwegian company, Norsk Hydro, won exclusive negotiating rights to further develop the Azar field part of the Anaran block in western Iran. Also in 2006 LUKOIL and PDVSA completed the first stage of joint work to assess hydrocarbon reserves at the Junin-3 block, located in the heavy oil belt of the Orinoco River, Venezuela. That same year LUKOIL acquired 63% of a PSA for exploration, development and production of hydrocarbons at the CI-205 ultra-deep-water block in Cote d'Ivoire from the Nigerian company, Oranto Petroleum International. Also in Africa LUKOIL and the Angolan oil and gas company Sonangol signed a memorandum of mutual understanding that provided LUKOIL with the opportunity to take part in geological exploration projects on the Angolan continental shelf.

The expansion of LUKOIL abroad is not just fast but is successful in terms of entering competitive developed markets such as the United States. This is once again a proof of the global strategies of some outward investing Russian firms. The expansion into the United States took place through the acquisition of Getty Petroleum Marketing at the end of 2000. Given the important costs of establishing greenfield presence, and the informal barriers to such entry by the structure of the U.S. market for the distribution of petroleum products, that was the only possible avenue for LUKOIL's effective presence there. On the other edge of the value chain, LUKOIL's most important strategic move has been the acquisition, at the end of 2005, of the Canadian-based independent oil firm Nelson Resources. As LUKOIL gained international experience, its has moved from acquisition of established production and distribution assets to greenfield exploration and production activities lead by LUKOIL. The global strategy of LUKOIL represents an increasingly savvy market leader.

Gazprom is the largest Russian firm, a top-ten MNE by capitalization and the second largest Russian MNE in terms of foreign assets owned. It currently controls more than 60% of the natural gas reserves in Russia and about 17% of natural gas reserves globally. It also accounts for more than 84% of natural gas production in Russia and about 20% of natural gas production in the world. Its operations are spread globally: on the European continent alone, it has operations in at least 19 countries, involving natural gas distribution and processing activities. Gazprom inherited its gas monopoly from Soviet times. It was carved out from the Ministry of Oil and Gas in 1989. It was partly privatized through vouchers in 1993. Until 2004, the Government kept a 38.37% stake in the company. Foreign ownership at the same time was limited to 9% of the shares. In the late 1990s, that limit was raised to 20% and foreigners could only participate as deposit receipt holders. In 2005 the Russian government gained control of Gazprom and eliminated the limit of foreign ownership.

Gazprom's international activities include its price disputes with Ukraine, Belarus, Georgia, and other CIS and Baltic states as it has reformed its pricing policies. In 1990s Gazprom's customers in former CIS countries had difficulties paying international prices for gas. Those countries that are also gas transit states negotiated deals that link transit to gas price. Russian Federation's political considerations seemed to also have been taken into account in the supply and price agreements with these near abroad states. Since 2005 Gazprom has taken measure to shift to market prices for gas in these near abroad states due to the increased price difference between these transit-linked prices and the work price for energy and the strengthening of the transit counties' economies. Also the price of gas in Baltic States will be brought to the pricing level equivalent to those charged in Europe by 2007. These price policy changes were part of the 2006 gas crisis involving the transit country Ukraine which resulted in the gas transiting-country Ukraine to be shut off. As part of resolving these pricing and transit issues, Gazprom has been able to further its strategy of acquiring downstream distribution and sales networks. In Ukraine Gazprom has entered the retail market and in Belarus OAO «Gazprom» acquired a 50% stake in the state-owned company OAO «Beltransgaz» that owns gas trunk pipelines in Belarus.

This price dispute led to the cutoff of gas to central Europe and a shift in EU policy concerning energy security. The long-term effects of the international relationship between Gazprom and its near abroad transit countries has been for Gazprom to develop three new transit projects; Nord Stream, Blue Stream and South Stream to diversify the connections into the European market. Also the EU and EU member states have begun to develop alternative sources of gas through LNG and alternative sources of energy, including a renewed interest in nuclear energy. To build Gazprom's image in Europe and to help implement its international distribution strategy Gazprom has hired former German Chancellor Gerard Schroder and former Finnish Prime Minister Paavo Lipponen to help with government relations and environmental issues. In the case of the South Stream project Gazprom offered a position to former Italian Prime Minister Roman Prodi.

New sources of gas are tied to Gazprom's international activities in Central Asia. Agreements have been signed with Uzbekistan to develop oil-and-gas fields located in the Ustyurt region, while Russian-Kyrgyzstan and Russian-Tajikistan joint ventures have been contemplated to further develop these countries' reserves. Gazprom signed with Uzbekistan Agreement on the major provisions in the production sharing agreement for the Urga and Kuanysh fields and the Akchalak group of the Ustyurt region. Licenses were obtained for geologic exploration on seven investment blocks in Uzbekistan. Gazprom plans to invest about US $ 400 million in the geologic exploration work in the region within the coming five years. Two geologic exploration licenses were obtained in Tajikistan for the sites in the Dangarin region and Rudaki region with the estimated reserves of natural gas of 35 bcm and 30 bcm, respectively. Gazprom has also been implementing a number of foreign projects to develop the shelf resources. Gazprom has also worked to create a Russian-Kazakhstan joint venture based on the Orenburg Gas Refinery to expand the refining of natural gas produced at the Karachaganakskoye field in Kazakhstan on the territory of the Russian Federation.

In 2006 Gazprom has entered into agreements with European MNEs. In April 2006, a framework asset swap agreement was signed with BASF AG that increases Gazprom's shareholding in the joint venture WINGAS up to 50 % less one share and grants it 49 % in two Libyan oil concessions C96 and C97 from its German partner. In turn, BASF received a 25 % shareholding less one registered ordinary share and one preference share in Severneftegazprom that holds the license for the development of the Yuzhno-Russkoye field. In July 2006, a framework agreement was signed with E.ON that gave E.ON a 25 % shareholding less one voting share in Severneftegazprom in exchange for shareholdings in Hungarian energy companies. In Africa Gazprom won the tender for hydrocarbon exploration and development on Block 19 on the shelf in the Mediterranean Sea in Libya. Gazprom's shareholding amounts to 100 %. The exploration work at the field is scheduled to begin in 2007. The scheduled investment into the project is to exceed US $ 200 million. Internationally geologic exploration work has also been carried out on the continental shelf in Venezuela, Vietnam, India, and the Caspian Sea to further development of Gazprom and Gazprom Neft reserves.

Gazprom has also been involved in a series of disputes with international oil majors in the development of Russian oil and gas resources. In the case of the Sakhalin-2 project an agreement was reached in December 2006 between the shareholders of Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) and OAO «Gazprom» on OAO «Gazprom» entering the "Sakhalin – 2" project as a leading shareholder. The project is focused on LNG supplies to the Asia-Pacific Region. In December 2006, OAO «Gazprom», Royal Dutch/Shell, Mitsui and Co. Ltd., and Mitsubishi Corporation signed a deal making Gazprom the lead with a 50 % shareholding plus one voting share in Sakhalin Energy (the project operator). The other shareholders received a total of USD 7.45 billion for the reduction in their stakes in the project. In this transaction each of Sakhalin Energy's shareholders decreased its shareholding by 50 % and received a proportional payment. At the conclusion of the deal, Royal Dutch/Shell, Mitsui, and Mitsubishi now hold respectively 27.5 %, 12.5 %, and 10 % shareholdings.

Gazprom has been planning to implement the Nord Stream project which includes the construction of two lines of the pipeline (with a design capacity of 27.5 bcm per year each) under the Baltic Sea from the Portovaya Bay (near Vyborg) to the coast of Germany (near Greifswald) with a total length of 1,200 km. The aggregate design capacity of the Nord Stream pipeline will amount to 55 bcm per year. The first line of the gas pipeline is scheduled to be commissioned in the end of 2010, the second line is scheduled to be commissioned in 2012, and the design capacity is planned to be reached by 2016. However, there have been and to continue to be significant environmental and political risks related to the Nord Stream pipeline.

The pipeline route transverses the heavily used Baltic Sea, that has a history of industrial pollution, where disturbing the sea bottom may re-contaminate the water. The sea also contains a number of military material disposal sites. The route will require EU, Finnish, Swedish and German approvals, and the Baltic States and Poland have used their influence to continue the review of the project. To share the political, environmental and operational risk Gazprom has established a gas transportation company Nord Stream AG based in Switzerland to design, construct, own, finance and operate the gas pipeline. Gazprom involved European partners through the Final Shareholders' Agreement that distributes the ownership between OAO «Gazprom» (51 %), E.ON Ruhrgas (24.5 %), and Wintershall (24.5 %). Each of the German companies is expected to transfer 4.5 % of its shareholding to a fourth participant – Gazunie.

Another attempt to add to opening up of new access points into the European market by Gazprom has been the development of the South Stream pipeline to serve Italy and Austria. This pipeline will connect Russian and Central Asian gas field with the southern European market across the Black Sea and through Bulgaria and Greece, thus bypassing Ukraine. Austria and Italy have participated in the development process with Austrian companies reaching agreements on participation and gas storage. Gazprom in January 2008 entered into an agreement with Austrian OMB to purchase 50 percent of the largest Central European gas distribution terminal and storage facility. This terminal will be the final point of the Gazprom-led South Stream project or the all-European Nabucco gas pipeline project. At the end of Roman Prodi's time as prime minister of Italy it was suggested in the media that the newly former prime minister would take a position within the South Stream project similar to Gerald Schroder's in Nord Stream AG project. As of May 2008 Prodi had not joined the project. The South Stream project is a Gazprom-led pipeline project that has the participation of the Italian firm ENI. In addition to the two European projects, Gazprom has actively developed the Blue Stream pipeline project that connects Gazprom to the Turkish market by undersea transit across the Black Sea while bypassing Georgia.

Gazprom has also been active in diversifying its market for gas sales by developing new markets in Asia. In March 2006, OAO «Gazprom» and Chinese National Petroleum-and-Gas Corporation (CNPC) signed an agreement on Russian natural gas supply to the Chinese People's Republic. This agreement outlines possible gas supply timelines, volumes and routes as well as the pricing formula. Gazprom expects to deliver supplies after 2010. Gazprom's product portfolio currently consists of natural gas, oil, petro chemical products, and LNG. There are preparations underway for Gazprom to enter new export markets in the USA, Canada, China, Japan, and South Korea. The development of LNG export capacity for Gazprom is of particular concern. The plans for the Stokhman Field in the far north include the development of an LNG export facility in the Leningrad region.

In 2005 Gazprom acquired a majority share in Sibneft. The consolidation of Sibneft into Gazprom adds petroleum extraction and refinery capacity to Gazprom. The acquisition incorporated Sibneft's international activities into Gazprom Neft. Sibneft was the fifth largest oil producing and refining company in the Russian Federation, created in 1995 and privatized through a series of auctions in the subsequent two years. The $13 billion purchase substantially increased Gazprom's oil resources and petro-chemical capacities. Gazprom Neft has a participatory holding in the SlavNeft's Mozyr Oil Refinery in Belarus. The creation of a retail network outside Russia is one of Gazprom Neft's top priorities, and the company has set up a subsidiary, Gazprom

Neft Asia located in Kyrgyzstan, which operates 78 retail fuel stations in the Kyrgyz market. This subsidiary is intended to become an important player in the oil product market in the Central Asia. Unlike LUKOIL, Gazprom Neft does not have an international exploration strategy, and the Gazprom Group international strategy is directed from the main Gazprom headquarters.

Gazprom has tried to gain access to large industrial and gas-fired power generation markets in Western and Central Europe, too, taking advantage of the liberalization of the downstream gas market of the EU though it has run into significant resistance in expanding its path forward in Western Europe through the acquisition of transmission and storage facilities to implement its strategy of controlling the distribution of its products to final customer.

Gazprom is working towards a competitive presence in the energy power industry. Its strategic goal is to increase return on investment in the course of reforms in the Russian power industry, diversify tariff regulation risks, optimize the share of national gas in the Russian fuel balance, and achieve synergy with other types of activities. Gazprom has entered the market through the purchase of generation and distribution companies, plans to construct coal generation facilities in the regions with high share of natural gas in the fuel balance, and create of new efficient facilities and upgrade of the existing facilities to decrease the energy intensity of power. Its efforts in the power generation industry are expected to centralize of power generation capacity and to decrease costs and provide for continuous power supply for Gazprom's subsidiaries' operation facilities used for hydrocarbon production, transportation, and refining.

Gazprom intends to purchase power generation capacity to fulfill its own needs and to shape the future demand for the sources of energy under its control, i.e. gas, oil, and coal. This interest in power generation has a foundation on the historic ownership stake that Gazprom holds in RAO UES and the fact that it is the primary supplier of gas for power generation in Russia. As of December 31, 2006, Gazprom Group's companies owned a 10.5 % shareholding in RAO «UES of Russia» (RAO UES) and a 29.8 % shareholding in OAO «Mosenergo» (Mosenergo) and 13 new companies that appeared in the course
of its restructuring. In October 2006, the Board of Directors of RAO UES approved the additional issue of Mosenergo's shares amounting to 40.7 % of its share capital for the benefit of Gazprom. Gazprom has participated in auctions for other power companies organized in the course of RAO UES restructuring and after the July 2008 dissolution of RAO UES component subsidiaries of the Gazprom Group will have a significant stake in the Russian power industry.

Another component of Gazprom's strategy is the alliance with SUEK, Russia's largest coal enterprise. As of February 2007 an agreement was reached with OAO «SUEK» (SUEK) which accounts for about 30 % of power-station coal supply in the domestic market. A joint venture is to be created based on Gazprom's electric power assets and SUEK's coal and energy assets. Gazprom will have a 50 % shareholding plus one share in the joint venture. The joint venture's activities are intended to increase economic efficiency of using coal and gas in electric power generation. The combination of Gazprom Group companies and SUEK will have a major portion of the post-reform power generation market in Russia.

Gazprom has developed its activities in the electric power industry abroad through a series of agreements to develop new generation capacity, the purchase of RAO UES spin-off international projects, and through the trading in power and carbon credits. Gazprom through a Russian-Armenian joint venture ArmRosgazprom will purchase and complete the construction of the fifth power generating unit of the Razdanskaya TPP, the largest thermal power plant in Armenia. The agreement with the Government of Armenia will result in the expansion to the capacity of 1,100 MW. Gazprom’s shareholding in ArmRosgazprom was increased in 2006 up to 53.4 %. Gazprom has entered the sale of electric power and carbon trading in European countries. In 2006, Gazprom Marketing and Trading joined the Code of Rules for the purchase, sale and transportation of electric power in the UK to complement its existing activities in the gas trading and retail sales of gas. A presence is planned to be expanded in the electric power market in France, the Netherlands, Belgium, Ireland, and Germany. Also in 2006 Gazprom completed its first transaction in the European market related to the carbon trading. Its non-core FDI includes investments in gas equipment manufacturing, petrochemicals and banking.

Metals and Mining Industry

The principal Russian companies in the metallurgical industry are the Evraz Group, MMK, Mechel, Severstal, Norlisk Nickel, and NLMK. Evraz Group is the leading producer in Russia on a consolidated basis that has made significant international acquisitions. Mechel is an integrated steel and mining group focused on the production of steel long products, as well as mining products such as coal, iron ore and nickel. MMK is a producer of flat products and a significant supplier to the oil and gas and automotive sectors. Mechel owns 17% of MMK. Severstal, specializing in flat products and is a leading manufacturer of strip, cold-rolled sheet and galvanized sheet that also supplies the oil and gas industry and the automotive sector. Severstal also controls UAZ, a Russian car maker. Severstal controls Vorkuta-Ugol and Kuzbassugol, which provide Severstal’s coking coal requirements. NLMK produces primarily hot-rolled and cold-rolled flat steel, galvanized steel, color-coated steel, pipes and other steel products. NLMK’s largest customers are in the construction and pipe industries, followed by companies in the automotive sector. Each company in the metals group has followed aggressive international strategies to expand their customer base, acquire production facilities and new technologies, and to provide access to raw and intermediate inputs.

Severstal

Severstal, the second largest Russian TNC in metallurgy, has followed an internationalization strategy, focusing on acquiring assets in developed countries under the leadership of its principal shareholder Alexei Mordashov. Severstal has leapfrogged to a global status through large acquisitions abroad with a series of investments due to the adoption of an aggressive internationalization strategy in 2003. The success of its internationalization is due to its management style and less to its roots in Soviet-era autarkic iron and steel production. Severstal has an international board of directors and international management group.

Severstal is a vertically integrated industrial group that has significant assets in all stages of the metallurgic value chain from raw material, to ore smelting and primary production, to final processing. The firm started operations as the state-owned Cherepovets Steel Mill (in 1955). It was gradually privatized after 1993 and completed restructuring and consolidation by 2001 – 2002 time period. Severstal has capacities in the mining of iron ore and coke production, smelting, rolling and wire production. Through its international expansion it has become a globally integrated corporation with direct access and production in international markets. By 2006 it held the third largest value of international assets, USD 4.6 billion, of all Russian MNCs.

The international activities of Severstal began when it started technological upgrading of production via a joint venture with a U.S. partner in 2001. That became the basis for expansion abroad from 2003 on. Severstal bought, first, Rouge Industries in the United States in 2004, followed by the takeover of Lucchini Industries of Italy in 2006. The purchase of Rouge Industries provided direct access to US automobile corporations as a supplier. It also entered into a coke producing joint venture and started to build a greenfield steel plant in the United States. The construction of the SeverCorr mini-plant facility increased the range of value-added products produced by Sevestal North America while providing greater access to new technologies in steel production. Severstal was motivated not just by its expertise in improving the efficiency of ailing iron and steel production facilities but also by market seeking motives: its plants in the United States are suppliers of major car producers. By 2006 Severstal had become a significant player in the North American market place with 8 percent of the US automotive steel market and 5 percent of total rolled steel market.

The acquisition of Lucchini Industries opened the European market place for Severstal. Lucchini was at the time the second largest European steel producer and acted as a major player in the Italian, UK, and French markets for steel products. The subsidiaries of Lucchini include Piombino a producer of rails and high quality rod iron, Sidermeccanica a producer of rolled product, and Ascometal a leader in long-length special steel products. Through its subsidiary Severstal-Metiz, Severstal has invested in value-added products, such as wire and other metal hardware. In 2006 Severstal-Metiz acquired the UK-based Carrington Wire and 60 percent of Ukrainian based Dneprometiz.

In addition to pursuing vertical and horizontal acquisition strategies for foreign market entry, Severstal's main shareholder Alexei Mordashov has pursued a merger strategy with another metallurgical MNE. In 2006 Severstal attempted a take-over of the Luxembourg-based integrated steel producer Arcelor. This action placed Severstal in direct competition with another MNE the Indian owned, Dutch based and London traded Mittal Steel. Severstal lost out on this transaction and Mittal Steel bought Arcelor due to difficulties in reaching an agreement between Severstal's owner Alexei Mordashov and the owners of Arcelor. Mordashov's treatment of minority investors in Severstal and previous joint venture partners was cited as problems for this merger. Mordashov pursued a political path during the negotiations relying on the positive statements of Russian President Vladimir Putin and Russian government support of the deal. In contrast, the owners of Mittal agreed to significant changes to the ownership structure and corporate governance practices as part of the deal with Arcelor. During and after this transaction Russian politicians and business leaders have pointed to an anti-Russian bias in European dealings with Russian MNCs. Severstal had significantly improved its corporate governance practices during its

LSE-listing and has the highest number of outside, independent, and professional directors of any Russian LSE listed firm. Even with these improvements in corporate governance appearance Severstal lost out in its bid for Arcelor.

Evraz Group
Evraz Group is an integrated steel and mining business and was formed in 1992 as EAM Group. It became a publicly traded company in 2005 with a listing on the London Stock Exchange. Evraz Group was formed on the basis of privatized steel and mining assets in the Russian Federation during the 1990s. It has since expanded internationally to hold assets in the steel and vanadium industry in North America, Europe and South Africa. Evraz Group has benefited from improvements in operational efficiency and the rise in the commodities market and had in 2007 over $12.8 billion in revenue and an EBITDA of $4.254 billion. Evraz Group has used its strong financial position to reinvest its profits and issued debt to fund internal improvements and expansion into the global steel and vanadium market place. The company has shifted its sales mix away from semi-finished products to higher value products such as construction, railway, flat-rolled, and tubular products. The principal owner of Evraz Group, as of the end of 2006, is Alexander Abramov and Roman Abramovich that holds 83.19% through Lanebrook Limited (Cyprus). The free float of Evraz Group consists of 15.33% GDRs listed on the LSE through the Bank of New York depository.

Evraz Group has increased its international scope through the acquisition of production, processing, and mining assets. The corporate strategy has been to diversify its holdings internationally, move up the value chain and to expand its international market share. The geographic breakdown of consolidated revenues for Evraz Group is summarize in Table 11. In 2007 Evraz Group's revenue from the Russian market increased in absolute amount though had declined as share of total revenue for the corporation.

Table 11: Evraz Group Revenue for the year ended 31 December, 2007

	2007		**2006**		**2007 v 2006**
	US$ million	% of total	US$ million	% of total	% change
Russia	5,952	46.4%	4,217	50.9%	41.1%
Americas	2,140	16.7%	340	4.1%	529.4%
Europe	1,894	14.8%	1,410	17.0%	34.3%
Asia	1,882	14.7%	1,945	23.5%	(3.2)%
CIS	575	4.5%	344	4.1%	67.2%
Africa	353	2.8%	20	0.2%	n/m
Rest of the world	12	0.1%	16	0.2%	(25.0)%
Total	**12,808**	**100.0%**	**8,292**	**100.0%**	**54.5%**

Source: Evraz Group, 2008

International activities of Evraz Group include the acquisition of Palini e Bertoli, Italy (August 2005), Vitkovice Steel, Czech Republic (November 2005), Oregon Steel Mills, USA (January 2007), Highveld Steel and Vanadium Corporation, USA and South Africa (April 2007) and Claymont Steel, USA (January 2008). Oregon Steel Mills was a significant expansion for Evraz Group that was valued at US$2.3 billion and included the addition of new technologies, products, and markets including the production of rail and large diameter line pipe. Evraz Group has also expanded into the CIS through the acquisition of 93.35% of ZapsibTETs of Ukraine for US$231 million in May of 2007.

United Company RUSAL

United Company RUSAL was created by a merger of two major Russian aluminum companies RUSAL and SUAL and the aluminum assets of the metals trading firm Glencore. The company, in 2006, accounted for almost 12% of the entire global output of primary aluminum and 15% of the world's alumina production. United Company RUSAL has inherited substantial international operations from RUSAL and SUAL. Under Oleg Deripaska's (principal owner of RUSAL through the financial management company Basic Element) leadership RUSAL developed an extensive network of operations and sales activities. In 2006 alone RUSAL bought the majority stake in the Aroaima Mining Company in Guyana, acquired the ALSCON Aluminium Smelter in Nigeria, purchased a cathode plant in China, added Eurallumina, an alumina refinery in Italy, to its list of assets, and completed the process of privatizing the Friguia alumina refinery in the Republic of Guinea. Prior to 2006 RUSAL had purchased a twenty percent stake from Kaiser Aluminium in the world's largest alumina refinery QAL (Queensland Alumina Limited) and it acquired the Friguia alumina refinery in the Republic of Guinea. SUAL had one significant foreign investment the 2004 acquisition of the Zaporozhye Aluminium Complex in Ukraine. The UC RUSAL also includes the Jamaican West Indies Alumina Company (WINDALCO). The company comprises two alumina refineries (Ewarton Works and Kirkvine Works), a shipping port (Port Esquivel) and bauxite mines in Schwallenburgh (Ewarton) and Russell Place (Kirkvine).

RUSAL ranks second (2006) of total foreign assets of Russian-based multinationals. The development of an international vertically integrated company has allowed RUSAL to gain better access to input and intermediate products including bauxite mines and alumina production facilities. The firm's strategy is the development of vertically self sufficient production and taking advantage of the international commodity market. The entrance into the Guinea, Guyana, and Australian markets for input and intermediate products through acquisitions provides access to significant bauxite reserves and alumina production. The inclusion of Glencore assets in UC RUSAL has opened the European market to the company. RUSAL controls the Eurallumina plant in Sardina, the Aughinish alumina plant in Ireland, and the Kubikenborg Aluminal (Kubal) in Sweden. UC RUSAL has global coverage in the aluminum industry and activities in most major extraction and production localities.

RUSAL's long term strategy includes its entry into the Chinese market as an integrated aluminum business to supply growing Chinese market. RUSAL's plans include the construction of an anode plant and development of opportunities for joint investment in expansions and greenfield plants. RUSAL has taken advantage of high commodity prices to invest its record profits into vertical and international investments. RUSAL has been interested in an IPO but has held off due to weak market conditions since the end of 2007. Major shareholders in UC RUSAL, Basic Element (Deripaska) and Renova (Vekselberg) have been able to make these investments without shareholder pressure for dividend and capital appreciation that would face a public company. RUSAL has been the most aggressive international investor of the metals and mining group. This strategy reflects the pattern of these major shareholders. Through other companies, both Deripaska and Vekselberg have aggressively invested internationally as well.

Norilsk Nickel

Norilsk Nickel is the world’s largest producer of palladium and nickel and one of the largest producers of platinum and cooper. Norilsk Nickel has also benefited from internal restructuring and high commodity prices and used the increased cash flow and profitability to invest in international acquisitions. The first international move was the acquisition of 55.4% of Stillwater Mining Company in 2003. Stillwater Mining Company operates in Montana, USA and is the only producer of platinum group metals in North America. In 2007 Norilsk Nickel acquired OM Group which included Norilsk Finland, Norilsk Nickel Cawse (Australia), and a stake in Canadian Royalties. Later in 2007 Norilsk purchased LionOre Mining International Ltd that included assets in Botswana and Australia. In addition to the Cawse mining facility that was purchased in the OM Group transaction Norilsk Nickel has purchased additional extraction assets in Australia. The LionOre Mining International Ltd acquisition added the Lake Johnston Operations in the Lake Johnston greenstone belt that includes the Maggie Hays underground nickel mine and a processing plant at Emily Ann. Other operations include the Waterloo and the Black Swan Nickel Operation.

In Finland Norilsk Nickel operates the Harjavalta nickel refinery. The Finnish based Norilsk Nickel Harjavalta also controls a 7.2% stake in Canadian Royalties Nunavik Nickel Project. This mining operation located in northern Canada is a greenfield development project that comprises six polymetallic deposits.

In Africa Norilsk Nickel has acquired a 85% stake in Tati Nickel, which is an operation where the Botswana Government holds 15% stake. In South Africa Norilsk Nickel holds a 50% interest in the Nkomati nickel mine a joint venture with the African Rainbow Minerals (“ARM”) that holds the other 50% in Nkomati.

Norilsk Nickel has secured major international extraction and processing assets through its international activities in Europe, North America, Africa and Australia. It has significant international operations and by the first quarter of 2008 30% of its nickel production came from its operations in Finland, Africa, and Australia. Norilsk Nickel has followed a resource acquisition strategy to continue to have access to ore. The profitability of the company has enabled it to invest in new operations.

MECHEL

Mechel’s steel business comprises the production and sale of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products and value-added downstream metal products including hardware, stampings and forgings. It also produces significant amounts of coke, both for internal use and for sales to third parties. In the summer of 2008 Mechel has come under suspicion of monopolistic pricing for its input products for the metal industry and was criticized by Prime Minister Vladimir Putin for selling its product abroad for less than in the Russian market. The Federal Anti-Monopoly Service has conducted an investigation of Mechel and it is expected that company will face significant fines for its activities. The value of its GDRs has fallen over twenty-five percent due to this investigation and on the basis of Putin’s comments.

Mechel has substantial coal, iron ore and nickel mining interests in Russia and Kazakhstan and the company uses this capacity to supply its own steel production or sell to third parties depending on price differentials between purchases from local suppliers and sales to foreign and domestic customers. In 2004 the IPO prospectus stated that the company has the capacity to internally source all of the coking coal, 92% of the iron ore and 55% of the nickel requirements of our steel segment, assuming in the case of iron ore that third parties process certain quantities of its iron ore concentrate into sinter and pellets. In addition the company is the only specialty steel manufacturer in the world capable of internally sourcing all three of these raw materials. Mechel has been the second largest producer of coking coal in Russia in 2003, with a 12% market share. The company has control of 24% of the coking coal washing capacity in Russia. Mechel owns 17.1% of the common shares of Magnitogorsk Iron and Steel Works OAO (MMK) Russia's largest producer of flat products. The firm has followed the strategy of maximizing its long-term profitability through finding the highest price for its products within the production stream and has tried to take advantage of the boom in the commodities market. Mechel is owned by Igor Zyuzin, Chairman and Vladimir Iorich, Chief Executive Officer. Both own 42.97% of the outstanding shares with 10.02% as a free float after the offering of ADRs in 2004.

An international subsidiary of Mechel is Mechel Nemunas a Lithuanian hardware plant that produces wire, calibrated steel products, nails, rods and nets. Its customers are primarily from the construction, engineering and furniture industries. Mechel Nemunas's principal production facilities include drawing mills, and nail-making, threading, net-weaving, net-wicking and contact-welding machines. Mechel holds COST, a major Romanian steel mill that produces specialty and carbon long products, forgings, and hardware. COST is the largest producer of long products (including rebars) and hardware in Romania and the second largest producer of raw steel in Romania, according to Siderom. The plant's customers are largely from the engineering, automotive, tool, ball-bearing, tube, hardware and construction industries. Also in Romania Mechel controls Industria Sarmei a steel mill and leading domestic hardware plant that produces long steel products, including carbon and alloyed wire rod, rebar and hardware, including various types of wire, ropes, nets, electric cables and nails, as well as carbon and low-alloyed billets. The plant's customers are largely from the construction and engineering industries.

Recent acquistions include a 2007 purchase of 49% of the shares of Toplofikatsia Rousse JSC (TPP "Rousse"), located in Rousse, Republic of Bulgaria. The acquisition is part of the development of Mechel's power segment and is in line with the Company's plans to enter new markets for steam coal. Also in 2008 Mechel announced its purchase of 100% stake in Ductil Steel of Romania. The purchase is in line with the further strategic development of Mechel's steel segment, and is also aimed at maintaining Mechel's position in the Romanian rolled and wire product markets. Ductil Steel has the following production facilities: Ductil Steel Buzau plant (Buzau, Romania), which produces carbon and low alloyed steel rolled and wire products, and Otelu Rosu plant (Otelu Rosu, Romania), which produces steel and billets for rolling.

ALROSA

ALROSA is a state owned integrated company involved in diamond exploration, mining, processing, and sale of rough and polished diamonds. In 2006 the ALROSA Group that includes ALROSA Co. Ltd. and ALROSA-Nyurba accounts for 90% of the diamond production in the Russian Federation and about 20% of the world diamond market in terms of weight and 25% in terms of value. At the end of 2006 ALROSA became majority owned (50%) by the Russian Federation, 32% owned by the Republic of Sakha (Yakutia), 8% owned by municipal governments in the region of operation, and the remainder of the ownership is held by individuals and other legal entities. ALROSA's primary activities are in the Russian Federation in the Far East. ALROSA has had a long-term relationship with the international diamonds market through De Beers since 1972 and on their own since the mid 1990s. ALROSA has representative offices in Belgium, the United Kingdom, Israel, Hong Kong, Dubai and the U.S. that engage in diamond processing and trade.

ALROSA has created a subsidiary "ALROSA-Africa" that directs the company's activities in African countries. "ALROSA-Africa" controls Catoca Mining Company in Angola that has designed, built and operates the Catoca ore treatment plant, the Camatchia-Camagico ore treatment plant, the hydropower plant construction on the Chicapa River, the joint prospecting company for the Cacolo project, and is engaged in co-operation with Sonangol Company (Angola) for development of oil and gas resources.
ALROSA has signed bilateral agreements with governments and companies in Angola, Namibia and India for the development of exploration, mining, and other infrastructure investments.

5. Key Drivers of Outward Foreign Direct Investment of Russian Multinationals
The international activities of Russian MNCs are a relatively new phenomenon as investors for the global economy. In the 1990s net capital outflows were primarily capital flight as insiders diverted the gains of recently privatized firms to outside investments. The post-August 1998 economic recovery and recent high commodity prices has placed additional capital resources in the hands of Russian firms. The increase in FDI outflows made by major Russian MNCs indicates that investment is being made for both traditional and novel reasons. The key drivers for FDI outflows include the strategic firm-specific motives such market-seeking, resource seeking, and technology seeking drivers.

Market expansion has been a driver for Russian companies into the CIS, European, and North American markets for telecommunications (CIS), metals and mining (Europe and North America), and oil and gas (America) industries. The purchase of the Getty service stations by Lukoil opened the North American market place for the sale of Russian petroleum product to American consumers. Vimpelcom and MTS have used its advantages developed in the Russian telecommunications marketplace to Central Asian countries and develop plans for expansions into the African marketplace. The expansion into the metallurgical industry in Europe and the U.S. has increased the access to these regulated market places by Russian MNCs.

Russian multinationals have increased their competition for the acquisition of resource supplies in the global market. Companies such as Lukoil, Norilsk Nickel, UC Rusal, and Alrosa have made significant investments in acquiring new resource supplies. The recent commodities boom coupled with significant improvements in the management and operations of Russian metals and mining, oil and gas, and other resource industries to invest new sources of resources. Russian companies are also facing an increase in domestic prices and high administrative barriers and long time horizons for the development of new Russian resources. The acquisition of developed or explored resources internationally has many advantages for the cash rich Russian natural resource MNC.

Russian firms are also influenced by the role of the Russian state in setting business priorities and limits to business activity and the general Russian business and investment climate. The Russian state has become, in general, supportive of utilizing the current surplus of capital in the Russian market for investments abroad to regain control of economic assets in the near abroad and to increase the profile of Russian companies internationally. Both President Medvedev and Prime Minister (then President) Putin have stated that the Russian government should act to protect and assist Russian business abroad and have both encouraged Russian companies to make investments abroad. The Russian business and investment environment has also influenced the pattern of Russian investment. The poor Russian investment climate based on high administrative barriers, a high level of corruption, and a lack of investment in infrastructure also hinders Russian company investment and leads to investment in foreign projects.

6. Conclusions

This research indicates that Russian “Eagles” (Russian-based international companies) have spread their wings and have become major players in the international market place. Russian companies are diverging from the path that International Development Path theory would predict for developing or transitional countries by jumping over the stages of development from export promotion directly to creation of global corporations. Both large and small Russian businesses are involved in international activities such as export promotion, strategic alliances, joint ventures, mergers and acquisition, and accessing the international capital markets through IPOs and debt sales.

The paper indicates that a firm specific theory needs to be developed to explain outward FDI of transitional economy firms. There are significant disadvantages for Russian based MNCs to invest internationally. Russian firms are young with limited international experience, Russian institutions do not support outward FDI and the capital control regime in place limits the ability of Russian firms to invest abroad, and there are limited knowledge or production comparative advantages for these firms to use in the international market place. Russian firms do now posses financial resources due to the recent rise in commodity prices and have turned to the international market place for diversification of their asset base. Evidence of patterns of investment supports the claim that Russian companies have entered the global market to better access knowledge, technology, business process, and financing technologies to further develop the efficiency of Russian firms. Also the weak institutions for protecting investors in Russia have lead Russian firms to manage this political and economic risk through international diversification and outward FDI.

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