Corporate status in Russia
and its implications for strategy of oil and gas companies

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by

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This paper examines the impact of the Russian institutional environment on the international strategies of oil and gas companies that are heavily relying on Russian resources. The empirical interest lies in helping to better understand the impact of institutions inside Russia on its integration into the world markets for raw materials. This does apply to the possibilities of foreign investment into these industries, as well as to the international strategies of Russia's raw materials companies. Theoretically, the paper wants to contribute to the knowledge accumulated on Foreign Direct Investment (FDI) in the International Business literature. Here, institutional components of "ownership advantages" of the eclectic paradigm is specified for the Russian context. This results in the focus on a status-based power structure, rather than on a generalized institutional order. Then, a plausibility probe into this modification will be conducted with the help of two case studies.

The research question examined sounds as follows: What impact does the specific mode of protection of ownership advantages in Russia have on the internationalization strategies of companies that are heavily relying on Russian resources? It will be argued that the specifics of the Russian system alter the protection of ownership advantages in a way that binds companies to the goals of the Russian political regime in their external operations. This system is vertically segmented. Actors with high status are supported in their internationalization with ownership advantages that can give them superiority over possible competitors. Actors possessing low status, in contrast, cannot flexibly adjust their advantages. Meanwhile, all actors relying heavily on Russian resources for their internationalization have to reinvest into specific projects in order to keep their advantages. Overall, this results in a high ability to penetrate foreign markets, while at the same time qualitatively limiting the internationalization of the Russian economy to forms that are not harmful to the current regime. The two companies that have been selected as cases are Gunvor Group, a Geneva-based, privately-owned international oil trader and Gazprom, the Russian majority state-owned oil and gas company, as well as gas transportation and export monopoly. The research period covers the last ten years with a special emphasis on recent developments.

The Eclectic Paradigm and Russia

Scholars in International Business (IB) have developed a general framework to explain the internationalization choices of corporations as profit-seeking entities. The dominant OLI "paradigm" embodies insights from microeconomic theory, as well as macroeconomic variables to explain locational choice (Dunning 2001). It consists of three "legs", where

advantages of internationalization have to be present in order for internationalization to occur. The first leg consists of certain "ownership advantages", resulting in comparative advantages vis-à-vis economic actors in the market where it wants to venture. These advantages have been thought of as being composed of access to cheap production factors (labour, material, capital), or of superior coordination capability of these assets (Ot). Recently, in response to the New Institutional Economics movement, institutional (Oi) advantages have been introduced as well, though very loosely described as "a galaxy of both internally generated and externally imposed incentives, regulations and norms" (Dunning 2006: 201). Secondly, advantages of a certain location explain the choice of where a foreign investment takes place (L). These are advantages like the quality of factor endowments (access to resources, capabilities of the workforce) as well as the characteristics and growth potential of the respective market. Here, also institutional factors are included (tarriffs, environmental or competition regulations etc.) that may render a location more or less favorable for foreign investment. Thirdly, internalization (I) advantages have to be present in order to explain the choice to conducting an activity within a single firm. The question here is how Oa and Ot advantages are utilized in the respective foreign market; the choice being between selling a product, licensing production or sale of a product (where its production is not location-specific – thus licensing of production is no option for energy companies), franchising operations or internalizing the functions along the value chain.

With regard to Russia, it has been noted that the OLI paradigm is insufficient to explain the internationalization of Russian companies, as capital outflow has been much larger than expected. To amend its deficiencies, it has been suggested to supplement the framework with a fourth "home country" leg that could account for differences in home country variables (Kalotay 2008). However, less has been suggested on what this "leg" should look like (influence of "the state" on corporate decisions has been named as one variable). But rather than to add a fourth leg with unclear implications for theory, it is suggested here to incorporate these considerations into the first leg of ownership advantages. A solution has already been proposed by the author of the "paradigm": accounting for institutional matrices of the country where the respective advantage is located. Here, the focus will be on how the institutional matrix in Russia influences the generation and stability of ownership advantages and which moves are necessary to secure them, once they have been obtained. This has more far-reaching implications than concentrating on "home country" variables as it applies to all (foreign and domestic) actors that derive ownership advantages from Russia.

A Status-based approach to ownership advantages

The following discussion explores the specific relationship between institutions and the type of protection of ownership advantages. It develops a model of how ownership advantages are secured in Russia and looks at its implications for international operations of firms. In order to do this, it draws on game-theoretical and new institutionalist approaches that theorize different configurations of state-business relations. It then goes on to theorize the dynamics of privatized property rights protection by introducing the notion of status. Finally, the implications of these dynamics for global strategies and the eclectic paradigm are elaborated. Advantages derived from superior coordination abilities (Ot) will not be in the focus of the following discussion, as the impact of institutions on their formation is less straightforward.

The OLI model and new institutionalism in general start from the ideal-typical assumption that a stable and generalized institutional framework composed of (complementary) formal and informal rules is existent in the country that generates the ownership-advantages of a corporation. Thus, the assumption goes that the institutional matrix is homogenous, resulting in a generalized framework for all actors present in society. This is an important assumption, as generalized rules ensure relatively strong time-spatial stability of the ownership advantage of economic actors, inter alia via stable property rights. Property rights determine the "rights to use resources" (Alchian/Demsetz 1973: 17) in a society, thus circumscribing which actor gets access to what (natural, human, social) resources present in a society on what conditions. Consequently, what is owned in "ownership advantages" are not the resources *per se*, but the rights to possession and their usage in specific ways. Access to physical assets (production, transport, and processing), which constitute some of the most important advantages in the oil and gas industry, is regulated by property rights.

The strength of the state and the organizational capacity of societal forces largely explain the institutional outcomes. A generalized institutional matrix is most likely to occur, where those in power can be held accountable by dispersed but organized societal forces. In modern industrial societies, formal laws do often reflect property rights in place. These are rights in the original sense of the word, allowing to use a good on a stable basis, once an actor has been granted the right in question. If property rights are present in this way, economic power can be distinguished from state power, which in this case cannot interfere with business on a day-to-day basis. The result is that ownership advantages can be relatively clearly determined by examining generalized rules. What is more, they do not change overnight.

Meanwhile, the institutional matrix organizing the protection of ownership advantages may not be homogenous, but may look quite custom-tailored towards specific actors. This is

exemplified by the second and third ideal-type touched upon here. Weak protection of property rights emerges as the second possibility, where both the monopoly of power and society are weakly organized and all economically relevant actors in a society have to protect themselves with their own means. This situation is favoured by a small strata of rich people, as they have the means to protect their assets (Sonin 2003). It results in low stability of ownership advantages, as property rights may change rapidly due to their reformulation or forced redistribution.

A third ideal-type is the selective (privatized) protection of property rights by the state, which occurs when society is weakly organized but the state's monopoly of power is strong (Guriev/Sonin 2009: 2; Greif 2006). In this case, property rights are enforced as a private good by the state in exchange for political loyalty for those in power. This results in strong property rights protection for big economic actors that can afford to buy protection. At the same time, property rights are weak for less potent actors. Both the second and the third case result in a fragmented institutional matrix, where different societal spheres are regulated according to different principles. In consequence, formal ownership advantages show only part of the equation, as they may amount to more than the formal assets on the account of a corporation or may amount to less, subject to decisions not taken within the corporation. The costs of this system are externalized to the holders of weak property rights. In these cases, property rights do not take the form of real rights, as they are not protected independently and are therefore of a conditional nature.

In Russia, the 1990s largely correspond to the second type, as the monopoly of power was weak. Rules were formulated and implemented at different (federal, regional) levels and in horizontally differentiated organizations (parties, parliaments, judiciaries, force agencies). Several bases of power existed and economic actors had a certain autonomy from the executive state (Zudin 2000). Often, this was termed "state capture" (Hellman et al. 2000; Hellman/Schankerman 2000), as economic actors had certain influence over decisions of state elites and agencies at federal and regional levels. As political power rested on several bases, corporations had differentiated strategies to build power bases. Some tried to influence parliament, others had special relationship with regional leaders or the federal executive, whereas yet others had access to the judicial system.

With the "vertical of power" put back in place in several stages since the beginning of the 2000s, facilitated by rising oil prices, formerly independent power bases in Russia were collapsed into the central executive. The result is a "monocentric regime" (Zudin 2006: 207) with a consolidated monopoly of power that meets no significant counterweight. This system

corresponds to the third case outlined above. In this system, advantages may change quickly, as property "rights" can be withdrawn from a corporate actor or exchanged against other resources in the context of "selective application" of law, resulting in a condition of "suspended punishment" (Ledeneva 2008: 347). This is a permanent floating state, where the law can be applied against those who did not act according to the particularistic rules of those in power.[1] The crucial point is that the institutional matrix is neither stable in a time dimension nor homogenously across actors. It may change quickly, thus necessitating quick adaptation of corporate strategy, and it looks different for different actors, according to the quality of access of corporate elites to decision-making on the federal level. "Institutions" are therefore better interpreted from a structural viewpoint, which focuses on the network relationships between different actors and their various goals that come into play.

Goals, rules and case-by-case decisions are formulated by the regime. The regime is understood here as being constituted both of corporate as well as state elites that take part in political bargaining at the federal level. It is assumed that not all economic actors may take part in this process on an equal footing, those that are well-connected to the federal network possess crucial advantages. The result can be termed a "status-based order". It divides those actors having access to the decision-making arena from those that are excluded. This results in corporations having different levels of protection and quality of ownership advantages, according to their position in a hierarchically structured network. High or low status is defined by the density of networks between corporate elites and elites of the federal executive. Thus, "status" and the access to the rent-seeking opportunities it opens up is measured here by the structure and density of long-established work and leisure contacts between corporate and federal state elites, not by formal state or private ownership.[2]

Competition for the rights to use resources between economic agents is relegated to the political realm. High status actors, whose preferences *per definitionem* have better access to the political decision center, will get a better representation than low status actors. Therefore, a high status position leads to a higher ability of a corporation to take an active part in the process of goal formulation, the crafting of rules and ad hoc decisions together with other high-status actors. In effect, both the state elite and high status economic actors take an active

[1] As with every enforcement system, enforcement is not costless. So, actors whishing to punish an adversary have to weigh in the costs and benefits of setting in motion the machine of punishment. Residual rights of control and the associated costs of enforcement therefore serve as the most important power base of corporate actors in this system.

[2] This bears some resemblance to the literature on "political connectedness" in the institutionalist Strategic Management literature, see f. ex. Peng et al. (2005). However, "status" is a more far-reaching concept, as it pertains not only to the improvement of a firm's profitability, but although and more importantly to the carve-up of entire industries to the benefit of individual firms. It is also much more difficult to imitate than the concept of "political connectedness", as status relies on long-established, and often accidental contacts.

part in the political process. This results in different temporary equilibria, in which a delicate deal is struck between the political goals of increasing budgetary revenue, of foreign policy or economic nationalism, the specific corporate goals of profit maximization, as well as possible private goals of particular actors. In order to enhance their ownership advantages, high status actors will find it more easy than those actors with low status to engage in exchange with political actors. They change their corporate strategy towards the common goals of the regime and get additional advantages in return.[3]

At the level of low-status actors, it is much more difficult to bring own preferences to the regime's attention due to the more remote location to the network's core. Decisions by the regime therefore have to be implemented regardless of own preferences, the only reward being the protection of existing advantages. Thus, in a sense, high status actors are rule-makers, whereas low status actors are rule-takers. The relevant difference in outcome between low and high status actors is a relatively less favourable set of ownership advantages for low status actors when compared to those with high status. They have to exchange the protection of their ownership advantages against constantly providing useful services to the regime at the terms that it defines.

Economic actors with high status adopt the goal to perpetuate this system, as it is profitable to them. They would not profit from generalized property rights protection, as this would eliminate entry barriers for competitors with low status. As a result, there are certain limits to competition among high-status actors. It stops where it would result in a threat to the established system (Hanson 2009: 23). Coordination of economic actors against a threat is difficult, because of the possibility of state actors to play competing actors off against each other with the help of control over scarce resources (Guriev/Sonin 2009). Hence, all economic actors that derive substantial ownership advantages from Russia have an interest in contributing to the survival of "Russia, Inc.".

The above discussion implies that the political and economic framework conditions of this system have to be upheld by all corporations in their external operations. Thus, in general, their global operations will reflect the internal needs of the regime, if resources controlled by the Russian system result in ownership advantages vis-à-vis competitors.[4] In any case, the system will make sure that paramount reliance on ownership advantages located within Russia is preserved, as actors which are both integrated into the system and have a substantial power base abroad may have subversive effects.

[3] This is essentially the concept of "convertible points" as developed by Margarita Balmaceda (2006).

[4] As we will see below this is much harder to achieve in competitive than in oligopolistically structured markets.

Companies that possess only limited or no ownership advantages derived from Russia are a threat to the current system as they would opt for generalized property rights protection in order to be able to utilize their advantages more efficiently. They might also outcompete firms whose ownership advantages stem primarily from Russia. Their access therefore has to be limited, as they might try to transform the Russian system to their advantage, if they would grow too strong. Therefore, the integration of Russia into the functionally integrated global economy is rather limited in principle. Trade and financial interactions are less hazardous, as they do not involve control by foreign actors. Interactions with the global economy thus have to be "sterilized" from their possible negative effects on the status-based order.

Now to the concrete implications of this system for global strategy. To foster a global strategy that has been deemed to be useful by the regime, state actors may pool their own advantages with those of corporate actors. High status actors also have the possibility to pool, aggregate and exchange the usage rights of vital resources with other high status actors in order to advance their strategies. This means that ownership advantages can be adjusted by the elite in a more flexible manner to the situation prevailing in the respective target market. Firms with low status, in contrast, do not have privileged access to the crafting of laws and cannot defend themselves against harrassment. This puts them in disadvantage in comparison to high-status actors, as they do not dispose over a custom-tailored set of resource endowments and have to economize in a more rigorous way.

Summing up, what conclusions can be drawn for ownership advantages obtained inside Russia? The first conclusion applies to Russia in general: The assets and advantages obtained in Russia do not take the form of rights, but are conditional and constantly have to be underpinned by fulfilling tasks that are seen as being functionally useful for the perpetuation of the system by the regime.[5] This applies to both low- and high status actors. This implies that global strategies have to be seen as being useful for those in power. Ownership advantages may therefore be adjusted by the regime so as to reward or punish a certain internationalization move.[6] The internationalization strategies of corporations that rely on Russian resources are thus in general influenced by the institutional matrix in Russia. It has been argued that the institutional matrix in Russia consists mainly of structural factors,

[5] This has been termed "informal taxes" by Gaddy/Ickes (2005), but the treatment here does not necessary involve monetary payments but also other services that are useful to sustain and widen power. The rationality of economic actors is altered as a result.

[6] In general, this means that the degree of internationalization is constrained for those actors that derive the bulk of their ownership advantages from Russia, as too much internationalization could result in the development of a "footloose" enterprise which might not be easy to influence anymore.

namely the networks between state and corporate elites. In the following, this assertion will be investigated by looking at two corporations with dissimilar formal, but similar informal status.

Case selection

In order to test the hypotheses about the impact of the Russian system on global strategies two steps are necessary. One the one hand, it is necessary to demonstrate the plausibility of the overall effects of the Russian setup on internationalization strategies. On the other hand, the distinction of status positions has to be verified. In addition, the measurement of status that has been chosen here has to be verified against possible other definitions that take formal status (state vs. private ownership) as a point of departure. One could argue that the formal status of state ownership concurs with personal networks and that the former therefore is no relevant variable to focus on. This can be disproved by examining two cases with dissimilar ownership status, but similar status as understood here. If both actors have privileged access to resources in Russia, the argument would have been supported.

The paper will therefore continue with two case studies: One on Gunvor, a foreign company primarily in the oil industry and not formally affiliated with state bodies and another on Gazprom, an actor majority-owned by the state and primarily engaged in the gas industry. Both actors have high status and are quite dissimilar with regard to their activity. Gunvor is a privately owned group based in Virgin Islands-, Cyprus-, Switzerland-, and the Netherlands. It is mainly engaged in the global trade of Russian oil and oil products. Since 2002 it has grown into a significant player, lifting one third of Russian seaborne crude oil exports. Since 2007, one of its owners has been active in the Russian gas upstream and construction industry. Gazprom, in contrast, is the Moscow-based Russian gas monopoly and oil producer, publicly listed but majority-owned by the state. It produces not only the bulk of Russia's natural gas (83 %) and is the fifth-largest Russian oil producer. Gazprom also controls the domestic gas pipeline system, Russian gas exports including LNG, as well as infrastructure in several third countries. Thus, whereas for Gazprom internationalization means the movement into markets with locational (L) advantages beyond Russia's borders, for Gunvor investments into Russia are a sign of internationalization, albeit one that is evoked by protecting existing ownership advantages. To substantiate the relationship between status and international operations the study uses process tracing. For Gazprom, the strategy vis-à-vis Turkey on the South Stream project will be analyzed, as it provides a good example of how resources of the regime are used to advance the internationalization strategy. For Gunvor, the development of the company's core business (oil trade) and its more recent expansion into the Russian upstream sector will be investigated.

Case Studies

Status of Gunvor and Gazprom

To ascertain the status position of corporations, a social network analysis has been conducted. It consists of data on the work and leisure contacts of the top-level management of corporations in the oil and gas sector (Gazprom, Gunvor, LUKoil, Rosneft') and elites of the federal state executive (Kremlin administration, prime ministers, ministers, heads of federal agencies) during their lifetime. This results in a network with 160 nodes. It will not be reproduced here due to space constraints. The analysis shows that Gazprom is highly integrated with the federal state elite; only some less significant members of the corporation's top management do not possess relations with the core elite. Gunvor's management has enduring contacts to the state elite as well – though it is much more focused on Vladimir Putin and Igor' Sečin, who are located close to the core of the entire network, as well as several executives of other corporations in the oil and gas sector. This is not surprising, as Gunvor is a privately owned company much smaller than Gazprom and is steered mostly by two or three persons. Due to their integration with the core of state elites, both corporations have high status as defined in this paper. Whereas Gazprom can mobilize diverse resources with help of the contacts it possesses, Gunvor is only associated with key power-holders in the regime, having less tense relations to other parts of the regime.

Gunvor – the oil trader

Why are oil traders needed?

In order to understand the role of Gunvor, and as the oil market is often not very well understood, a short introduction is in order. What will be analyzed here is how the crucial link between the producer's supply crowd and the demand crowd of consumers is formed, resulting in world market prices for oil. The link between oil producers and consumers can be established differently. If the whole oil industry were vertically integrated (as it was about 50 years ago), oil companies would refine their crude oil and sell fuel and fuel oil at their wholly-owned fuel stations and through local retailers. Competition would exist only at the upstream end (for oil deposits) and on local retail markets for oil products. They could then "post" a crude price based on some netback value, which the producer countries would get for their crude oil. Today's oil market is organized differently. About 30 percent of oil is traded on a cargo-by-cargo transaction basis on more or less open markets. This, in conjunction with the futures market that emerged from this scheme, is the price-forming part of the market, from which other parts derive the value of their goods. Some part (about 10 percent) of crude oil is bartered for goods. The bulk of oil is traded with the help of long-term contracts, usually for

the duration of one year, which set volume and the delivered quality (Encharter 2007: 72). The price is derived from prices formed on the cargo-by-cargo and futures markets. Since the latter markets are the most important ones for pricing, the focus will be set accordingly.

Today's global oil market is differentiated into regional segments, functioning according to different rules. The physical basis for this regional differentiation is not only geography, but also the quality differences of crude oil. 190 different grades of crude exist, which are classified taking into account mainly gravity (API) and sulphur content. What renders the oil market global is the possibility in principle to re-route oil flows due to the flexibility of the shipping market. This builds the basis for the convergence of regional oil prices towards internationally established prices of so-called marker crudes. In general, oil traders exist due to the physical differences of crude oil and the regionally and institutionally diversified nature of oil markets. This results in fragmented and more or less accessible markets. As information on market opportunities is difficult to access by consumers, or as markets on the supply side may be absent, specialized traders emerge. In the former case, they may derive their income from using possibilities for arbitrage, or may have a competitive edge by privileged access to crude oil flows in the latter case.

Another relevant feature is the relatively long-term nature of oil trading, as crude shipping and loading schemes have to be crafted well in advance in order to avoid congestion and to organize trade flows in an efficient manner. This results in the fact that oil is traded up to one month in advance even in the "spot" oil market. This renders transaction relatively risky, as the satisfaction of the contract does occur only in the future. This contains not only the risk that the price may change until delivery, but also that one party may default on the deal (Encharter 2007: 80). Thus, trust in the counter-party is needed, if no institutions are in place.

Whereas trade can occur on the basis of trusted counterparts, it is difficult to form a liquid market needed for price formation without supporting institutions. Currently, three such liquid price-forming markets exist: The North Sea market around the Shetland Islands with dated cargoes of Brent, Forties, Oseberg, and Ekofisk (BFOE) as markers, the North American market for West Texas Intermediate blend, and the Dubai/Oman market for East of Suez exports (Wells 2003; Ströbele et al.: 136f; Argus 2010; Encharter 2007; Bacon 1986; Barrera-Rey/Seymour 1996).

As market participants do not come together and as there is no third party registering bids, information is possibly scarce. Information scarcity is reduced by private reporting agencies such as Platt's (McGraw-Hill) or Argus, who in effect "make" the oil price. They collect information on the terms of concluded deals from market participants on a daily basis, by

phone calls, electronic mail or pager. This information is used by the agencies to calculate the North Sea average Dated (Argus 2010; Platts 2010b). They are an extremely important element of the market: About two-thirds of all oil in international trade are traded at a differential to the Brent / North Sea Dated rate quoted by Platt's or Argus (Horsnell 2000).

An important additional component of the market are the Brent (BFO) Future contracts traded at the ICE in London. The bulk of trade (over 95 percent) in futures is of financial nature and is sold prior to maturing date or cancelled out with a matching selling position. Again, reporting agencies such as Platt's or Argus provide the crucial informational link between the "real" OTC trade and financial markets. Conversely, oil traders in the OTC market take the futures market into account when negotiating on prices, due to the high liquidity and higher informational efficiency of the futures market. As a result, "the futures markets set the level of prices, and the physical markets set the differentials" (Horsnell 2000).

Whereas prices in the North Sea are determined by the allotment of crude oil cargoes on a competitive basis, this is not the case for other world regions, including Russia. Here, the market largely begins not at the Russian (or Ukrainian/Baltic) ports, but only later, at the destination port on a cost including freight (cif) basis. Exports are organised on a longer-term basis and not under unified rules. Firstly, loading schemes on Russian ports are crafted by the Russian pipeline monopoly Transneft' in consultation with Russian oil producers. Transneft' owns and operates many Russian oil shipping terminals, with exception of the Caspian Pipeline Consortium (CPC) terminal to the West of Novorossijsk and LUKoil's small terminals in Vysock, Kaliningrad and Varandej. Transneft' also controls loading at foreign ports if oil streams are routed through its pipelines: Ukrainian port Yužnyj, Polish port Gdansk, Lithuanian port Butinge and Latvian port Ventspils. Loading plans are drawn up on a monthly base. However, Transneft' may interfere with the plans of producers for example if they are considered to have chosen the wrong trader (NefteCompass 2010). Secondly, every oil company chooses traders according to its own rules and on undisclosed terms. A high number of traders exist, the names of which may change quickly. Some trade via their own trading arm, others have privileged traders that are used constantly or interchangeably and some are holding tenders for exports of several months. Rosneft', for example, started to hold half-yearly tenders for export volumes in 2007, where oil traders have to offer the biggest premium to a formula comprising an average of Platt's Brent price minus Platt's Urals price (Reuters 2009). Because of this lack of transparency, price reports for Russian crude oil freight on board (FOB) at the different ports have to rely on cif prices at the destination ports netted back with the help of standard freight rates (Argus 2010; Platts 2010b). They are

therefore only estimates. At the same time, the incentives for oil companies to sell at a high price are provided by the tax regime, which takes away the supposed revenues according to the Urals price quoted in Platt's and Argus. The tax code seems to be enforced on a generalized and efficient basis.

There is also a small Urals contract-for-differences (CFD) market in the Mediterranean, offering oil traders to hedge the difference between the price of Dated Brent and the price of Urals cif Mediterranean for a certain period (Ovesen 2003). Attempts by the Russian authorities to establish Urals as a marker crude in its own right, accompanied by an own commodity exchange in St. Petersburg failed so far. The exchange was established in 2008 but did not meet enthusiasm from the oil companies and traders and could so far not develop a full-fledged clearing mechanism (Mikhaylov 2009; Butrin 2010). Also, contract enforcement is a problem in a country with a corrupt court system. Today, only a very small amount of oil products for internal consumption is traded at the exchange. Efforts to establish a futures contract for "Russian Export Blend" (REBCO) at the NYMEX exchange in New York also was a stillborn child, as not a single trade has been recorded yet. In fact, it seems strange to try to establish a future contract for a market which is so intransparent and lacks liquidity (Swann et al. 2006). The problems are also signified by the fact that the settlement price for REBCO futures is taken daily from FOB Primorsk prices posted in Argus Crude Oil. These, in turn, are not real FOB prices but netted back cif prices from sales at northwest European ports (Argus 2010: 7f).

By now, it is more clear what an oil trader needs in order to do successful business with Russia. With regard to ownership advantages, good networks with Russian oil companies (or their export daughters) are the most valuable asset, as it is very hard to imitate. Without access to Russian oil companies, a trader could only substitute Russian crude for access to crude in other world regions or crude traded on more open and hence more competitive markets. High status is therefore a highly relevant ownership advantage in the global market, which would be destroyed in the advent of a bigger role of exchanges in the market, or a better institutionalisation of OTC markets. Another relevant advantage is good knowledge of the shipping market and possibly connections to shipping companies, to facilitate chartering at low rates. A second relevant ownership advantage is local market knowledge in the consumer markets, as relevant information on possible deals has to be accessed by keeping a close ear to local OTC markets. Thirdly, one needs highly skilled trading specialists, that can process information gathered on oil, shipping, and financial markets and take the relevant decisions on the instruments to be used and their pricing. Thus, both superior resource access (physical

crude streams and information) and the ability to evaluate and coordinate the accessed resources lie at the core of the business model. As this business model is a global (or at least regional) business by definition, the decision to "go global" needs no explanation. The necessary access to human resources skilled in information processing and decision-making makes it necessary to move the control centre of the corporation to a place where such specialists are accessible. Additional features determining locational choice are of insitutional nature – mainly corporate taxes and regulations, as turnover and profits are high. The advantages of internalizing the business rather than organizing it via the market are straightforward, as there is no open market for crude and oil products at the Russian border, while the information on marketing and shipping is localized and constrained as well.

Gunvor Group – Structure and Operations

According to its daughter firm Meerwind, Gunvor Group had a turnover of US-$ 53 billion in 2009,[7] rendering it the third-largest independent oil trader. Gunvor International's offices in Geneva are the core physical presence of the company. Geneva is a favourable location of oil traders – the industry's global leaders Vitol and Glencore are located here, as are many shipping services providers and smaller traders like Addax Petroleum or Essent (now RWE Supply & Trading). The corporate structure is not very clear – in fact there are two Gunvor Internationals with their office registered at the same address. Both are ultimately held by Clearwater Advisors Corp. in the British Virgin Islands. The more relevant one is the branch office of Gunvor International B.V. in Amsterdam, which is in turn owned by Gunvor Cyprus Holding Ltd., which is owned by Clearwater Advisors Corp. It was established in 2007 and is also named on the corporate web site.[8] The other branch office is directly established by a company called Gunvor International Ltd. in the British Virgin Islands. Meanwhile, Clearwater Advisors Corp. seems to be the holding of all Gunvor Group companies.[9] The holding also owns Gunvor International Ltd. (Tortola), who holds Gunvor's shipping charterer Clearlake Shipping Ltd. in Road Town. It also owns oil trader Waterway Petroleum Ltd., Clearlake Invest Ltd., Gunvor's Singapore office, as well as Meerwind AB in Sweden, which in turn owns Finnish Oy Alexia Shipping AB and is the founder of Gunvor's Moscow office (Belton/Buckley 2008; Šlejnov 2009b; Graham 2010). Other traders affiliated with Gunvor include "IPP-International Petroleum Products Ltd.", Tortola and "International

[7] See http://www.meerwind.se; accessed 10.9.2010.
[8] http://www.gunvorgroup.com; accessed 10.9.2010.
[9] At least, this is stated on the website of one of its fully-owned subsidiaries, Meerwind AB of Helsingborg, Sweden. See http://www.meerwind.se; accessed 10.9.2010.

Petroleum Products (IPP) B.V.", Amsterdam. The latter is owned in turn by "IPP Oil Products (Cyprus) Ltd.". The Geneva office of both "IPP's" is located at the same address. They also have the same administrator, Sven Olsson, who also acts as the head of IPP Oy in Finland. In addition, Olsson is an executive in the Geneva office of Gunvor International Ltd., is the head of Gunvor Cyprus Holding Ltd. and of Meerwind AB. From 2001-2004, Gunvor-co-owner Gennadij Timčenko worked at the Geneva office of IPP. Gunvor Amsterdam and IPP Amsterdam also share the same executive director, Dirk Jonker.[10] Warly International Ltd. is a new and unknown trader, which is rumoured by market sources to be controlled by Gunvor (NefteCompass 2010).

The holding is controlled by two businessmen, whose exact shares are unknown. The Finnish citizen of Russian origin Gennadij Timčenko is reported to hold more than 47,5 percent but less than a controlling stake of the company. His Swedish partner Torbjörn Törnqvist says to hold a similar stake. The rest of the company shares is reportedly reserved for senior management. Until 2008, a third, unknown businessman from St. Petersburg held about 20 percent of the company (Wahlin 2009). This businessman may have been Petr Kolbin, who is a close associate of Timčenko (Bel'čenko 2010).

The development of Gunvor as an international trader of Russian oil exemplifies the functional role of trusted relationships relying on past experience in absence of market institutions. Timčenko studied electrical engineering at the St. Petersburg military mechanical institute. Later he worked in the foreign trade ministry branch in Leningrad, specializing in oil exports. In the late 1980s, after the Soviet oil export monopoly had been dismantled, he got appointed deputy head at Kirišineftechimėksport (Kinėks), the exporter of one of the largest refineries in Russia, located in Kiriši. When the refinery was privatized and control was given to the Russian company Surgutneftegaz in 1993, Kinėks became a standalone company which was privatized to the staff. Already before, in 1990, the Kinėks managers founded the joint venture "Urals" together with Volgotanker, the Dutch offshore firm "Sadko Oil" and several individuals.[11] The JV had departments in Finnland, Sweden, Denmark and Belgium. Almost all exports of the Kiriši refinery went via the Finnish Urals subsidiary. Timčenko began to work at Urals Finland and Urals Sweden. In 1995, Urals Finland and Urals Sweden went under the control of Kinėks and Timčenko became their director. The firms were renamed to "IPP, International Petroleum Products". Timčenko could now work on both sides of

[10] Source: Company register of Switzerland (SHAB), company profiles accessed via skyminder.com, http://www.meerwind.se, accessed 11.9.2010; Šlejnov (2009a); Higgins (2008).

[11] Andrej Pannikov, a former Sweden-based KGB officer who transformed himself into the foremost Soviet oil trader, as well as Swedish entrepreneur Niels Weergarden.

transactions, first selling oil via Kinėks and then buying them via IPP and selling them again to third parties (BBC 2006; Fokus 2004; Šlejnov 2009a; Bel'čenko 2010; Sampson 2007; Higgins 2008). Törnqvist has a working biography as an oil trader based in Sweden and Geneva and was working with Russian companies in the 1990s. In 1995, Törnqvist started his own business with focus on Russia and exports via Estonia. In 1997 Timčenko and Törnqvist decided to do some business together and founded Gunvor Energy, registered in the British Virgin Islands (Wahlin 2009). In 2002, Timčenko and Törnqvist decided to give up their separate businesses and concentrate on Gunvor instead. Timčenko shed its old business contacts and both moved to Geneva in order to build the new control center of their trader (Wahlin 2009; Higgins 2008). The biographies of Gunvor's owners suggest, that Törnqvist manages the trading business, whereas Timčenko ensures supply deals via his "ownership advantage" of trusted contacts. This was confirmed to a certain extent, as Törnqvist maintained in an interview that he is in charge of the global (trading) expansion of the company, whereas Timčenko normally is not involved into the day-to-day business but manages big investments (Wahlin 2009). Thus, Timčenko and Törnqvist personify the janus-faced character of Gunvor, being a competitive market actor on the sales side and relying on established relations of exchange on the supply side.

With regard to the traded volume, Gunvor grew rapidly in the 2000s and in line with changes in the Russian oil industry. During the 1990s and early 2000s, Gunvor was a small company and exported mostly oil from Tallinn but did little else (Sampson 2007). Meanwhile, both Timčenko and Törnqvist focused on their other businesses, concentrating mostly on the exports of oil products in the Baltic Sea region, predominantly via Estonia and Finland. Gunvor profited from the reconstruction of Russia to a monocentric regime under Putin, as this heightened entry barriers and removed competition. Whereas in the 1990s many different interests were present in the oil trading business, they were now condensed. More and more oil exports of state-owned companies were lifted by Gunvor. In 2001-02, cargoes were taken at southern port Novorossijsk from state-owned companies Rosneft' and Surgutgazprom, as well as from Grosneftegaz, the newly established holding company controlling the Chechen oil industry. The main supplier was Rosneft', exporting about 30 percent of its crude via Gunvor. Surgutneftegaz favoured other traders at the time and exported only minor parts of its crude oil via Gunvor, presumably for diversification as Timčenko already handled most of its oil products exports (which are even less transparent than crude exports). At that time, Gunvor was still a small trader, lifting only about 2 percent of overall seaborne crude

exports.[12] Gunvor's fortune grew simultaneously with that of Rosneft'. After Rosneft' had acquired new "ownership advantages" with the destruction of YUKOS and the acquisition of its main production daughter Yuganskneftegaz in December 2004, Gunvor's exports rose from 4 percent of total Russian exports in the fourth quarter of 2003 to 10 percent first quarter of 2005. In the third quarter, Gunvor and its associate Waterway Petroleum already shipped over 12 percent of Russian exports.[13] There are also some hints that Timčenko helped Rosneft' acquire Yuganskneftegaz, as the shady company Baikalfinansgrup, which won the auction and was subsequently sold to Rosneft', never disclosed its money sources and its initial owners (Geraščenko 2004; Duparc 2007; Sakwa 2009: 141). The assumption of a "common strategy" by Rosneft', state actors and Gunvor to redistribute assets makes sense as a business decision, in order to acquire new ownership advantages. It has paid back in the subsequent rapid development of Gunvor. A further increase of volumes occurred in late 2005, when Gazprom acquired the Sibneft' oil company from Roman Abramovič and began to route a part of its crude exports via Gunvor (NefteCompass 2006a). Today, the company handles one third of Russia's seaborne oil exports and a significant share of oil products exports (Gunvor 2010; Belton/Buckley 2008; NefteCompass 2009a).

Concerning the impact of the ownership advantages on internationalization, two complementary directions have to be highlighted. The first concerns the global expansion, whereas the second concerns the reinvestment of profits in Russia, which has a complementary function. Gunvor's ownership advantages in the global economy stem primarily from the large volume that it got assigned due to its status on a regular basis, allowing to achieve economies of scale. But even more important is the exemption of Gunvor from the usual "country risk" that all low-status actors have to take in Russia. This ensures access to global markets at all times and to excellent conditions, as risks are kept low. One example is related to the removal of the Soviet war memorial in Tallinn in 2007. The Russian regime responded not only verbally, but also economically. Whereas most transit of oil and oil products through Estonia was stopped due to "maintenance works" as a reprisal, Timčenko's trains proceeded as usual to the Muuga port near Tallinn. This hit rival oil traders like Trafigura or Mercuria severely, but also former partners of Timčenko, who have a stake in Sillamäe port (Higgins 2008; Vin'kov 2007). Thus, status-based high volume assignments and low risk lead to low costs on the supply side and thus lie at the basis of Gunvor's economic success on the market-side of the equation. This helped Gunvor to lower prices for the services of shipping companies and ports (Belton/Buckley 2008). Profits were then

[12] Source: Own calculations, based on Nefte Compass: Offtakers for Seaborne Crude Exports, several years.
[13] Source: Own calculations, based on Nefte Compass: Offtakers for Seaborne Crude Exports, several years.

reinvested into offices in geographically diverse target markets, in order to better leverage existing advantages via gaining new information. Gunvor's outreach may also have helped in extending the global reach of Russian crude and oil products: Exports of Russian crude oil and oil procucts to the USA accounted for 1,5 percent of all crude and products exports in 2000 and rose to 8,4 percent in 2008.[14] Thus, Gunvor acts as a "market maker" for the Urals blend via its beneficial access to Russian crude leveraged via its worldwide reach. In this sense, Gunvor acts as an active globalizer of Russian oil flows.

But what impact does the market's perception of high status have on ownership advantages? Although the company is formally not Russian, it is often perceived as such in the market due to its unique advantages generated in Russia. The company's owners do not deny that they have extremely good contacts in Russia which helped the company to rise. At the same time, they seem to be inconclusive if the market rumour that they are connected to Putin is an asset or a liability. Törnqvist claimed in 2008 that it harms the company, whereas he acknowledged in 2009 that it in fact helped them to make deals on the market (Wahlin 2009; Belton/Buckley 2008). Thus, already the perception of high status may have a positive impact on the market power of an actor, presumably if the business world has become acquainted to doing business with Russia and given up on claiming a "level playing field" structured by generalized rules. Then, a company which is associated with possession of high status and has a certain track record will attract partners and deter competitors.[15]

Global expansion went hand in hand with the acquisition of the respective human capital, necessary to coordinate the new assets. The best traders from other Geneva-based and local trading firms could be recruited by offering the fivefold salary; up to US-$ 4 Mio. – a price competiors simply couldn't match due to their higher costs (Sampson 2007; Duparc 2007). In 2009, Gunvor started to reinvest the accumulated capital into physical assets. To enhance its flexibility, Gunvor acquired "a significant interest" in Geneva-based Castor Petroleum. Castor holds a share in an oil pipeline linking the Atlantic Ocean to the Caribbean via Panama. Castor Petroleum also possesses good relations to refineries in the US (NefteCompass 2009a). It seems as if Gunvor has acquired total control over Castor, as all members in the supervisory board are employed at Gunvor's Geneva office as well.[16] In 2009, Gunvor also established a new "Global Energy Division", which handles LNG, gas, electricity and carbon trade and is headed by the former head of Essent Trading. In an effort to backward integration Gunvor

[14] Own calculations based on UN Comtrade data: Reporter USA, classification SITC Rev. 4, codes 33, 34; retrieved 15.9.2010. Data on Russian exports are taken from the Russian Central Bank.
[15] For further evidence on this effect, see Higgins (2008).
[16] Source: Swiss corporate register SHAB, 15.9.2010.

acquired an interest of 30 percent in the Laganskij Blok prospection area in the Russian part of the Caspian Sea from Lundin Petroleum (NefteCompass 2009b). Since 2007, Gunvor is also diversifying its suppliers, having signed a long-term supply contract with Nigeria and lifting crude from Angola (Sampson 2007). In 2009, about 70 percent of transported goods still originated from Russia (Wahlin 2009).

Little is known about the concrete marketing strategy and instruments of Gunvor. It can be assumed that Gunvor is using the standard instruments when selling its oil in the different markets, as competition is intense. This assumption is confirmed when studying available sources in the market. Gunvor seems to use a mix of spot sales in destination markets and longer-term (half-yearly) contracts (Platts 2010a; PKN 2010).

When evaluating the global expansion strategy in general, Gunvor used its initial ownership advantages efficiently to buy complementary assets and build a global supply network, enhancing its global reach and core competencies. Only the vertical integration of supply makes less sense, as oil exploration and extraction are not core competencies of a trader. Also, Gunvor apparently did not have any problems with oil supply prior to the acquisition. However, the mode of protection of ownership advantages in Russia necessitate these investments and therefore point to the second, complementary part of the strategy.

Just as Gunvor has grown into a global company on the one hand, the nature of its Russian-based ownership advantages tie the company to Russia on the other hand. Without these advantages, it would be almost impossible to keep the current share on the market or to grow. As the advantages may be redistributed to other high-status actors, the rules of the regime have to be followed in order to avoid re-allocation. Therefore, it does not suffice to offer good conditions for crude and products exports on the basis of existing advantages. In addition, capital has to be allocated at the right place. This explains why the company and its owners invest in Russia despite its already firm ownership advantages on this market. More specific, these investments have been carried out not into projects randomly chosen, but towards the strengthening of the main suppliers Rosneft' and Surgutneftegaz and their associate networks.

To begin with, Gunvor's purchase of a 30 percent stake in Laganskij block is a high-risk investment, but reasonable from Rosneft's perspective: Rosneft' is interested in breaking the dominance of Russian major LUKoil in the Russian part of the Caspian Sea, where LUKoil is so far the only Russian player who has discovered substantial fields and has a schedule for starting production. At the same time, Rosneft' and LUKoil became partners in a joint venture that holds the exploration license for the block next to Laganskij in the Southeast, as Rosneft' took over YUKOS's share of the license-holder in 2007. Even more important, the biggest

discovery made so far in the Laganskiy block, Morskaya, straddles both blocks.[17] For Swedish Lundin Petroleum, the majority-owner of the license, the involvement of Gunvor was necessary as well. In 2007, Lundin was notified by the Russian environmental watchdog, Rosprirodnadzor, that its license might be withdrawn due to a delay in drilling (Kommersant" 2007). Fearing the loss of its investment, Lundin then quickly moved to offer Gazprom the controlling stake of the project. Gazprom chose to reserve an option on the controlling stake rather than to invest directly, as the monopolist has an aversion against risky investments and chooses rather to take over licences when prospects are secured (Achundov 2007). Nevertheless, the licence was not withdrawn and even prolonged in early 2009 (Lundin 2009). But Gazprom did not exercise its option, most likely due to the insecure prospects of the block, as the monopolist prefers involvement on a later stage. Instead, Gunvor moved in as another actor with high status (Rebrov/Džodžua 2009). For Lundin, this will solve problems with the licence, whereas Rosneft' could avoid a move of Gazprom into Caspian projects and strengthen its position vis-à-vis LUKoil.

Another investment is the construction of a new oil products export terminal near the small town Ust'-Luga at the Baltic Sea, where no infrastructure has been present so far. As a trader, it is more rational to build a loading terminal than to invest in oil exploration, but illustrates that the interest of the central state network and Surgutneftegaz have taken precedence. Premier Putin announced in 2008 that the loading of all light oil products should be shifted from the ports of the Baltic States to Russian ports (Putin 2008). This was then repeated by the governmental development strategy of the fuel-energy complex until 2030, which also names Ust'-Luga as a priority (Pravitel'stvo Rossii 2009). In the end of 2008, Gunvor (via its Cyprus-based offshore "Capefar Ltd.") took over the company Rosneft'bunker from state-owned Zarubežneft' and other parties, which is building the oil products terminal in Ust'-Luga (BBC 2009; Temkin 2009). The terminal is planned to start up in autumn 2010 and will have an initial annual capacity of 25 million tons, which will eventually be increased to 40 million tons, rendering it the largest fuel oil terminal in the world (IOD 2010b). In September 2009, state-owned Vnešekonombank granted an eight-year US-$ 545 million loan on undisclosed terms to Rosneft'bunker for the completion of the project, as it will "divert shipments from Baltic ports to the Ust-Luga region", a speaker explained (BBC 2009). At the same time, the expansion of Russia's Baltic flagship oil port, Primorsk, which now is able to handle 8.4 million tons of oil products annually and has the necessary pipeline infrastructure in place, doesn't seem to be a priority anymore. This may be to the benefit of

[17] See: Lundin Petroleum: Lagansky Block, in: http://lundin-petroleum.com/eng/operation_russia_maps.php; accessed 13.9.2010.

Surgutneftegaz's Kiriši refinery, as Ust'-Luga will be a nearby port, which is more difficult to access for other refineries as no product pipeline is planned at the moment (Butrin 2008).

Meanwhile, the direct benefits of the investment seem doubtful for Gunvor due to several reasons. Timčenko, via offshores "Carring Finance" and "Maples SA", Luxembourg, holds 72,78 percent of railway transporter "Transojl SNG", specializing in oil products and oil transport (Bijanova et al. 2010; Šlejnov 2009b).[18] The company is the second-largest private Russian rail transporter and had a market share of 22 percent in the Russian oil and oil products transport via rail in 2009 (Nepomnjaščij 2010). With help of Transojl, Gunvor shipped oil products to the port of Muuga near Tallinn, where the trader has long established business relationships, which helped Gunvor to keep costs low. Timčenko claimed in 2008 that he controls 60 percent of all oil and petroleum products transit through Estonia (BBC 2006; NefteCompass 2006b; RB.ru 2008; NIK 2007; Higgins 2008; Vin'kov 2007). Gunvor also regularly used the Ventspils port and hired capacity on a long-term basis (NefteCompass 2009a). Thus, the utility of the expensive (about US-$ 800 million) investment seems doubtful, given Gunvor's assets already present in the Baltic region. This is underlined by the fact that the terminal in Ust'-Luga will have worse characterisics than the ports in the Baltics: Whereas Muuga has a depth of 18 meters and can take tankers with a deadweight of up to 300,000 tons and Ventspils takes tankers with up to 150,000 t, Ust'-Luga will be able to host tankers with 120,000 t only.[19] It is also not ice-free, like the Baltic ports. Thus, the new port allows no additional economies of scale but rather reduces them. This leads to the conclusion that the investment is not really beneficial for Gunvor, but is needed rather to solidify its high status position in the competition with other high-status actors eager to carry out such investments. The dominant logic here seems to be that of economic nationalism imposed on economic actors by state actors and resulting in beggar-thy-neighbour type investments.

As signified by the next examples, this benevolent financing of desired projects could then again be translated into access to the "market" of highly profitable investments in Russia. This is exemplified by the acquisition of Russian pipeline construction firm Stroytransgaz and of a big stake in Russia's second-largest gas producer Novatėk by Luxembourg-based closed investment fund "Volga Resources SICAV-SIF SA". Gunvor co-owner Timčenko is the main

[18] Via „Transojl SNG" Timčenko holds 9,577 percent of Bank „Rossija", which is also a good example of high status. During the last years, the bank was granted control over some very valuable assets from Gazprom, inter alia the insurance company „SOGAS" and the fund-administerer „Lider", which administers Gazprom's pension fund. The pension fund, in turn, controls Gazprombank, which also holds the media holding Gazprom-Media, chemical giant SIBUR and other valuable assets. See Bijanova et al. (2010); Forbes (2010)

[19] Only tankers with a deadweight of maximum 150,000 t can travel through the Danish Straits due to the shallow waters.

beneficiary of this fund, whereas other beneficiaries are not disclosed.[20] Sven Olsson is showing up again, this time as administrator of the fund. Stroytransgaz is one of the biggest construction firms in the Russian oil and gas industry, infamously known for its high kickbacks, expressed as a share of construction costs. It also owns 50 percent of the Angaro-Lenskoe gas field, which is a field of "federal significance" under the Russian subsoil law (Art. 2). The fund bought a part of Stroytransgaz from Gazprom-manager and metal magnate Ališer Usmanov in 2007. In 2009 it increased its share to almost 80 percent (Kommersant" 2009).

The other case is the acquisition of Jamal-SPG, which holds the production licence to the Južno-Tambejskoe gas condensate field on Jamal peninsula. Južno-Tambejskoe is a field of "federal significance" as well (1,2 Mrd. Barrel oil equivalent). The field is planned to be the basis for a new LNG plant to be built on Jamal peninsula. Therefore, foreigners acquiring a stake of 10 percent after the enactment of the law on foreign investments in strategic sectors (May 2008) have to get the permission from the government commission on strategic investments. However, Volga Resources reportedly acquired 74,9 percent of Jamal-SPG from Usmanov in late 2008 and did not ask for permission from the government. In fact, the information on the deal is contradictory: Whereas Usmanov claimed to have sold the stake to "affiliates of Gazprombank" (seemingly to Gazprombank-Invest) in late 2008, Volga Resources maintained it has bought the stake from Usmanov in the first quarter of 2008 (Grib 2009; Prime-TASS 2009; Shiryaevskaya/Rayborn 2009). The price of the deal was never disclosed. Whatever the real circumstances were – the episode shows the effects of high status, where the licence for a "strategic" field can be handed around whithout causing public attention of authorities and in breach of valid law. This stands in sharp contrast f. ex. to the Kovykta case, where oil firm TNK-BP was forced by Gazprom and the state to effectively stall the development of the field.

In 2008, Volga Resources began to build a small stake in Russian gas producer Novatėk as well. Novatėk is believed to be primarily management-owned, but Gazprom does also own a stake of 19,39 percent via one-purpose-vehicles in the Cayman Islands. It is the biggest "independent" gas producer in Russia and plans to build and operate a LNG terminal on Jamal peninsula. Volga Resources then sold 51 percent Jamal-SPG to Novatėk in mid-2009 (Grib 2009). At the same time, Volga Resources upped its stake in Novatėk to 18,2 percent and in the course of 2010 to 23,13 percent (Kommersant" 2010). This time, the fund did ask for permission from the government commission on strategic investments, which was granted

[20] For some information consult http://www.volga.lu.

without any problems (Grib/Kiseleva 2009; Rebrov 2009). The same applied to his business partner Kolbin, who bought the rest of shares in Jamal-SPG held by Gazprombank (25,1 percent) in 2009 at a discount price via his offshore vehicles (Rebrov 2009). In mid-2010, Novatėk reached a long-term agreement with Gazprom on the shipment of LNG, which formally upholds Gazprom's export monopoly, but grants Novatėk the right to market 50 percent of the plant's production (VN 2010).

Whatever the motivation of these investments, they rather seem like a more or less coordinated transfer of assets from one nominal holder to another than like an independent acquisition strategy. It seems like if a certain division of labour is coordinated, where Gazprom ceases assets to some other high-status players who possess the necessary financial resources in view of the already strained budget of Gazprom, which is not being too keen to invest into the development of new fields. It confirms the proposition made initially about the nature of property rights, which may be flexibly exchanged among high-status actors. Exchange is also facilitated by cross-ownership of assets, as signified by Gazprom's stake in Novatėk. Supposedly, Timčenko could invest into these projects because of his superior financial resources and as a competition-enhancing measure towards inefficient Gazprom. This strengthens the position of Rosneft' and affiliated actors. Of course, the investment into Novatėk is interesting also for Gunvor, not only because it reinforces existing advantages, but also as Gunvor aims to develop its LNG business. But it does reinforce the system's functionality and is therefore a desired investment.[21]

As has been argued, Gunvor's rise was made possible due to its status position and the economic rise of other corporations with high status. This ownership advantage allowed the company to limit risks and cut costs and hence to become a tough competitor to established oil traders, which is able to win in competitive tenders. Meanwhile, the perception of high status by other market participants was apparently helpful in dealing with competitiors. The perception was also fostered in press interviews with the companies' owners, which points to its strategic use. At the same time, the company did not use any visible external resources of the Russian state to promote its strategies. This is mostly due to the competitive forces in the global oil market, which severely limit the usefulness of such advantages. The case of Gunvor

[21] Indeed, the methodological question emerges on whether to best conceptualize the property rights as assigned to corporations or better as pooled resources. In the latter case, they are pooled resources of a "Russia, Inc.", comprising the central state and high status economic actors. Can Russia better be understood as a big corporation with different departments? In this case, tasks and resources would be assigned temporarily to the "department" that is deemed viable to fulfil a certain task. Viability may be measured by financial strength, technical knowledge, global contacts that can be leveraged, as well as political questions of the balance of power in the corporation. Once the task is deemed to be fulfilled, or redefined, of if other departments have better characteristics, a reorganization occurs.

also shows that the global strategy of a foreign company with significant ownership advantages in Russia is recursive on Russia, as reinvestments have to be made in order to keep existing advantages. These have been made into projects fulfilling the state's goals of economic nationalism or to enhance the position of associated high status actors. In exchange, Gunvor got the possibility to take part in the redistribution of high-value assets from Gazprom, which sustain the ability of the regime to fulfil its economic goals. The specifics of Gunvor's investment strategy can also arise due to the fact that Gunvor's advantages arise not from ownership, but only from privileged access to a set of income-generating assets. But it will most likely also be the case for those that are based on formal titles of ownership, as has been evident by the redistribution of assets from other high-status actors like Gazprom to Gunvor.

Gazprom – the gas monopoly and oil producer

The gas industry and Gazprom

The gas industry differs in most aspects from the oil industry. The most relevant aspects for international strategy will be highlighted in this introduction, which also describes Gazprom's position in the European gas market. Here, only Gazprom's gas branch will be examined. In contrast to oil, gas trade is so far subject to market mechanisms only at the margins and an authoritative pricing mechanism based on gas-to-gas competition does not yet exist. Instead, competition is geared against other fuels, taking oil products as a reference for pricing. This organisation of trade void of a market is mostly due to the low energy density of gas which, in conjunction with technology available so far, does not allow for shipping at low rates similar to oil but render it a grid-bound commodity. These transport difficulties provide for a high capital intensity of the gas industry. Correspondingly, path dependencies are marked, as technological and geographical choices show strong lock-in effects. Therefore, infrastructure investments are likely to determine resource flows and patterns of (asymmetric) interdependence for a long time (20-60 years). Due to the interdependencies caused by these rigid structural patterns, pipeline investments often have wide-ranging geopolitical implications.

Of course, the character of this system changes subject to the regulatory framework in which it operates. If there are several upstream producers connected to one pipeline system and several consumers in the downstream market, the rigidity of the system may be alleviated by regulating the "natural monopoly" of pipeline transport so that competition will be possible. In this case, the infrastructure would lose much of its geopolitical implications, as patterns of interdependence are not structurally predetermined. As a result, the owner of the pipeline network would lose its strategic "tertius gaudens" position between producers and consumers.

The benefits would be redistributed from the owner of the infrastructure to producers and consumers. The possibility of a market emerging implies a more efficient allocation of goods in this case. However, this hinges on the fact that several producers and many prospective buyers are available.

As a result, a pipline owner will be disinterested in regulation of pipelines that would provide equal access to third parties. This is also the case for Gazprom, whose export monopoly for Russian gas and imported gas from Central Asia was formalized in 2006. Gazprom dominates gas trade in Russia and is the EU's most important supplier of natural gas, accounting for about one quarter of its natural gas consumption. Due to the corresponding lack of market characteristics, consumer-producer relations in the gas industry provide ample ability for strategic planning, which are lacking in the oil market. Once a choice on infrastructure is made, it will have substantial lock-in effects and largely determine trading patterns. Often, gas flows are not readily substitutable, resulting in substantial vulnerability of a target state (Christie 2009). Thus, its control over the gas network results in high "market" power of Gazprom in many European energy markets (Noel 2008). This ownership advantage derived from the Russian context may thus result in a substantial leverage over consumers. When reconsidering the implications of the status-based order in light of the structural position of Russia's gas industry, it becomes obvious that specific contributions to the system's survival may not only be accomplished by investments inside Russia, but also by global strategies to a greater extent than in the oil industry.

Internally, Gazprom's contribution to the survival of the system are manifold. Its gas branch supplies the country with comparatively cheap natural gas (60 percent of production are consumed in Russia), which provides not only process heat to the industry, but also warms most houses and produces more than half of the electricity generated in Russia. This amounts to a constant subsidisation of the Russian economy. Monetary tax contributions are relatively modest, amouting only to about eight percent of federal budget revenues. Meanwhile, more than 60 percent of the company's revenues stem from exports to the EU (Grätz 2009: 67). This results in a high dependence of Gazprom and its systemic functions on the EU's market. As a result, both the regime and Gazprom as a corporation are interested in extending Gazprom's presence on this market and in keeping prices high. They differ, naturally, on internal prices, where Gazprom pushes for higher prices, whereas other actors in the regime in general advocate only modest price rises. This results in the difficulty of disentangling the regime's interests from those of Gazprom in external strategies on the European market.

These differences are only visible in tactical and minor strategic questions, but not in the major strategic decisions.

Turkey and the South Stream pipeline

The following example will highlight the relevance of status in global strategies by focusing on the advantages of other regime actors that Gazprom uses to advance its goals. The exchange condition has already been provided in the above discussion, which established Gazprom as an actor, providing indispensable services to the Russian system.

Turkey is the third-largest market for Russian gas (after Ukraine and Germany) and receives about 60 percent of its gas from Russia. The project to build the South Stream pipeline was announced in mid-2007 in a Memorandum of Understanding between Gazprom and Italian energy giant Eni. In 2010 it was reported that Electricite de France will also participate in the pipeline, reducing Eni's stake. Similar to the Nord Stream pipeline, it is aimed to link the core value markets of the EU directly to Russia. The pipeline is proposed to run from Southern Russia under the Black Sea to Bulgaria, then branch off to the south and to the north. The northern branch is going to run through Serbia and Hungary to Austria or Slovenia and the Southern branch through Greece to southern Italy. The routing is so far left ambiguous for the purpose of extracting concessions from individual countries. Like the Nord Stream pipeline, no new markets are served, as existing pipelines through the "3rd corridor" (Ukraine-Moldova-Romania-Bulgaria; Ukraine-Slovakia-Austria-Italy and Ukraine-Hungary) are already reaching all markets. The proposed capacity of the pipeline was doubled to 63 bcm/year in 2009, with estimated costs amounting to US-$ 25 bn. At the same time, it is estimated that pipeline transport capacity to Europe will be 72 percent higher by 2020 than what Russia can reasonably deliver (Götz 2008: 94f). As a result, transit through Ukraine could be reduced from 116 bcm in 2008 to to 45-50 bcm/year by 2015 and even below that in 2020 (Pirani et al. 2010).

Who in Russia is benefiting from this project? South Stream has been seen mainly as a transit avoidance project which is aimed at reducing the power of Ukraine in the transit to Europe. On the one hand, this may be used to reduce transit fees and to establish control over the Ukrainian gas transport system. On the other hand, the transit project may also be aimed at extracting political concessions, like the gas-for-fleet deal in early 2010. Thus, the benefits of the regime and Gazprom are difficult to disentangle. However, the project may also have some more concrete economic benefits for Gazprom, which have not been emphasized so far and are rooted in the structural underpinnings of the gas market. Somewhat counterintuitively,

the advantage of South Stream may lie in its high costs and knock-on effects on gas trade. In the context of a liberalizing and structurally mature gas market with several possible suppliers, Gazprom has an interest in securing future market share. The best insurance strategy against a loss of market share is to let consumers invest in infrastructure that cements one's own position on the market. This is due to a twofold effect: On the one hand, the consumers then have an interest in the best possible use of the infrastructure they invested in. If there is only one supplier of that pipeline at the upstream end, it does not have to worry about demand. On the other hand, the investment funds used by the downstream partners to build the project cannot be allocated to diversification strategies. As a result, market dominance is preserved – the pipeline becomes a "sponge project", soaking up investment capital. To press capital out of this sponge, the infrastructure will be maximally utilized. Thus, investment into new and costly pipelines may have some advantages, if one succeeds in transferring the bulk of the risk to consumers. This is exactly what happened for Nord Stream: Not only do European companies finance 49 percent of the structure, while Gazprom controls the pipeline, but also did the German and Italian governments provide export credit insurances for 80 percent of the project's financing. Meanwhile, it helps to foster uncertainty about future demand and to build economic and political constituencies in target countries in order to render the project's high costs less relevant. In addition, South Stream will hamper the liberalization efforts of the EU by avoiding the upstream competition necessary for a market to function. This way, the project makes additional sense for Gazprom, as it allows to cement and enhance the own position in gas supply and a market structure suited to its dominant position.

Now, we shall deal with the more specific question of how Gazprom used the system's resources in its external strategy vis-à-vis Turkey. As the Black Sea is small, the pipeline has to pass through the Exclusive Economic Zone of either Ukraine or Turkey. Whereas Ukraine is a party to the United Nations Convention on the Law of the Sea (UNCLOS), Turkey is not. UNCLOS regulates that in this zone any state may lay pipelines, but is subject to the regulations of the coastal state. The latter may thus significantly delay pipeline development by demanding environmental impact assessments or may completely deny the laying of the pipeline if the impact assessment shows a negative environmental impact. Thus, Ukraine may significantly delay the pipeline passing through its waters. The Ukrainian government already hinted that it considers the pipeline to be economically harmful due to the negative effect on its gas transport system and environmental harmful. Given the resistance of Ukraine, which may significantly delay the project, Russia was left with the longer route through the Turkish Exclusive Economic Zone, which Turkey declared without being signatory of UNCLOS.

Turkey, on its part, is not especially interested in South Stream and may not grant permission to the pipeline's construction, as it is no party to UNCLOS. It is partner to the competing EU-backed project "Nabucco" which will, unlike South Stream, lead to more gas transiting through its territory. But it is not likely that both piplines will be realized due to structural competition. On the upstream end, Gazprom's South Stream rests on the premise that additional volumes of Turkmen gas can be imported and re-exported to Europe, while Nabucco is trying to get access to these same resources (Socor 2010). On the downstream end, both pipelines aim at the same market with limited demand elasticity. As a result, Turkey supported Nabucco, but not South Stream. Meanwhile, the Turkish government was interested in another project, the Samsun-Ceyhan oil pipeline. This project was designed to reduce the impact of oil tanker transport through the congested Turkish Straits and would have the nice by-effect of resulting in additional transit fees for the Turkish government. It is a joint venture of Italian Eni and Turkish textile entrepreneur Ahmet Calik. It competes with the much shorter Gazprom- and Transneft'-backed Bourgas-Alexandroupolis pipeline. So far, the Samsun-Ceyhan project lacked oil supplies. In order to win the Turks over to its side, Gazprom did not approach the Turkish government on its own, but the Russian government acted as a negotiator vis-à-vis the Turkish side and aggregated resources to extract a favorable decision.

So, in August 2009, the Russian and Turkish governments signed an agreement on cooperation in the oil sphere, which foresaw a possible Russian participation in the Samsun-Ceyhan oil pipeline. In exchange, Turkey promised to immediately grant permission to explore the seabed for the South Stream pipeline and to hand over all necessary construction permits until November 10, 2010 (Kolesnikov 2009a; Grib et al. 2009; Kravčenko/Tovkajlo 2009). In October 2009, a common declaration on the Samsun-Ceyhan pipeline was adopted by the energy ministers of Turkey, Russia, and Italy, which were supported by Russian Vice Prime-Minister Sečin. In addition, a MoU was signed between the Samsun-Ceyhan partners on the one hand and Rosneft' and Transneft' on the other hand on the start of commercial negotiations on their participation in the project. In return, the Turkish energy minister handed the necessary permits on exploratory work for South Stream over to Sečin (Mel'nikov/Grivač 2009; Kolesnikov 2009b). In this process, Gazprom played no visible role. So, the first steps could be taken by pooling resources and exchanging them, so far without any substantial costs for all participants. However, negotiations between the Russian companies and the Samsun-Ceyhan consortium stalled as it came to more concrete questions. In September 2010, Transneft' director Nikolaj Tokarev said that the tarriffs demanded by the Turkish side are too

high and that the negotiations will have to start anew in order to make the pipeline economically viable (IOD 2010a). At the same time, Premier Putin maintained that Russia will fulfil its "promise" to the Turkish side (SKRIN 2010). So far, the construction permit for South Stream has not been granted from the Turkish side.

This short overview shows that the high status allows Gazprom to promote its external goals via the Russian government. The system's resources were necessary to move Turkey to cooperation on South Stream. At the same time, the compliance of the domestic agents it needs to tie into this strategy has been doubtful. On the other hand, the behaviour of Transneft' may also be a coordinated negotiation strategy aimed at extracting more concessions from Bulgaria and Turkey. In any case, the strategizing did not contribute to the rapid conclusion of the deal and hence did not help the rapid advancement of South Stream.

Gazprom, in turn, is contributing resources to the regime by default, as has been outlined above. Not only does it supply Russia with cheap gas, but is also useful as a foreign policy resource in certain circumstances. Besides, the South Stream project will result in enduring (asymmetric) interdependencies of European countries, which results in economic benefits as well as in an altered decision-making context for the affected context. This is a beneficial outcome for the system as a whole, as it won't be actively challenged from countries whose companies have actively invested into Gazprom-controlled pipeline projects and whose societies bear the cost of their eventual default.

Conclusion

The paper discussed the overall systemic effects on the internationalization of high status actors. As a relevant case is missing, it still leaves the usefulness of the distinction between high and low status actors open to investigation. With regard to the OLI paradigm it has become clear that the institutional (Oi) dimension in ownership advantages is able to incorporate the different concepts of ownership. Whereas in general it is assumed that ownership advantages cannot easily be modified by outside actors, this has proven to be problematic in the Russian case. Thus, the institutional matrix providing for the specific mode of protecting and enhancing ownership advantages has to be taken into account when explaining internationalization. For Russia, the absence of generalized protection results in a status-based order. This leads to a greater flexibility in the ownership advantages of individual firms. They may be flexibly adjusted to suit the preferences of state actors and high status economic actors that form the regime. In the case of Gunvor, competitiveness on global markets has been facilitated by providing access to crude streams and increasing the reliability of supply, while no specific strategies are pursued outside Russia. At the same time, flexible

ownership advantages prohibit the disentanglement of the corporation from Russia by obliging the company to re-invest profits into projects desired by the regime or by fractions of it. Gazprom, in turn, could rely on the advantages of other actors in the regime to enhance the competitiveness of the South Stream project. This strategy is also helpful to the perpetuation of the regime. Concerning the external implications the conclusion can be drawn that market forces act as an active deterrent towards strategies aimed at pooling the regime's resources. Gunvor has to act as a normal market participant in order not to be outcompeted. Here, the special ownership advantages are visible only via the rapid expansion of market share. In the structural context of gas trade, the advantages of other actors in the regime may be used to craft sophisticated strategies. In general terms, if companies are tied to Russia with the bulk of their ownership advantages, their internationalization can be delayed or advanced, as well as their strategies qualitatively modified according to the regime's goals.

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