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**RUSSIAN FDI IN CENTRAL AND EASTERN  
EUROPEAN COUNTRIES. OPPORTUNITIES  
AND THREATS**



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## SUMMARY

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Russian outward foreign direct investment (OFDI) has been showing a very promising performance in recent years. The Central and Eastern European (CEE) countries have become a key destination, but this is often viewed with suspicion by host countries.

The paper begins with the quantity and geographical distribution of Russian capital investment, pointing to differences between estimates and official OFDI data reported on a balance-of-payments basis by the Central Bank of Russia, which are frequently revised. In some years, OFDI has exceeded the FDI inflows into Russia, which is very unusual for an ex-communist transformation country. It is also paradoxical that FDI from relatively poor and less developed Russia should be supporting the economies of relatively more developed countries. When the destinations are examined, it emerges that some of the FDI is round-tripping and trans-shipping, as a significant proportion of the investment is conducted indirectly, through third economies.

The paper investigates the companies behind the transactions and their various motives for expanding abroad. The bulk of the OFDI has been coming from natural resource-based companies, Russia's largest exporters, earning well from high world market prices for energy sources and raw materials. Having presented the Russian FDI position in the CEE region through the statistics of the host countries, the paper sets out to describe the main Russian-origin investments and trends in selected CEE countries. Special attention is paid to the strategic investments in the gas and oil industries and the alarming dependence on Russian natural gas and crude oil. It is stressed that Russian FDI is managed by mature strategies.

The paper also looks at the usually negative attitude taken in ex-socialist CEE countries to companies with Russian capital. The reasons for resistance include memories of earlier Soviet policies, fear of losing control over the commanding heights of the economy, and so-called oil and gas diplomacy, as well as cultural, productivity and efficiency issues. Five case studies are cited to shed light on the probable acquisition methods.

Finally, attention is turned to the prospects for Russian FDI in the CEE countries and to some actual privatization opportunities.

## 1) RUSSIAN DIRECT INVESTMENT ABROAD: COUNTING PROBLEMS

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According to the Central Bank of Russia (CBR), Russia's stock of FDI exceeded USD 100 billion at the end of 2004—1 per cent of the world total and five times higher than the Russian figure for 2000. But care is needed when comparing data. Russia's international investment position is continually being revised by the CBR, and uncertainty is expressed in many annual reports, notably UNCTAD's *World Investment Reports* (WIR). *Tables 1, 2 and 3* aim to show how the time series, trends and selected ratios are changing.

Some observers believe the stock of Russian OFDI had exceeded the above-mentioned data for 200 by the mid-1990s. For example Rybkin (1995) and Gorshenin (1995) calculated that the stock of total investment abroad (direct, portfolio and other) was USD 130 billion at the beginning of 1995. Khaldin and Andrianov (1996) put this at over USD 300 billion in 1995, with direct and portfolio investment each accounting for USD 30–40 billion. Bulatov (1998) was probably near the truth in saying OFDI stock from Russia had reached USD 20–30 billion by 1997.

There are four main explanation types for differences between these estimates and official balance-of-payments figures: (i) differences between book value and market value of Soviet firms abroad, (ii) the fact that Russian investments in other former Soviet republics became foreign assets after the collapse of the Soviet Union, (iii) the fact that in some cases, direct investment was registered as portfo-

lio or other investment, and (iv) some investment remained unregistered.<sup>1</sup>

Russian companies showed very promising performance abroad in 2003, followed by a slowdown in 2004, partly because the Russian government prompted Russian-based transnational corporations (TNCs) to slow their speed of expansion abroad.<sup>2</sup> The revised FDI outflow data of the CBR 2005b and WIR 2005 suggest that Russia's share in world OFDI was a relatively low 1.6–1.4 per cent in 2003 and 2004.

Since July 2003, capital flight has been rising again in response to the Yukos case. The round-tripping phenomenon still exists; most FDI from Cyprus is actually round-tripping Russian capital.<sup>3</sup>

In 1992, 2000, 2002 and 2003, FDI outflows were higher than FDI inflows into Russia, which is highly unusual in transformation countries. (However, inward FDI stock consistently exceeded OFDI stock.) Moreover, Dunning's investment-development path theory does not fit Russia. For one thing, it is impossible to define what stage Russia has reached. For another, no association between per capital GDP (level of development) and net outward investment can be found.<sup>4</sup> It is also paradoxical that the FDI and other legal and illegal flows mean that relatively poor and less developed Russia is supporting relatively more highly developed countries.

Finally, in global terms, there is a strong correlation between total worth of billionaires and outward FDI stock, and this may explain the high OFDI stock estimates.<sup>5</sup> According to *Forbes*, Russia's richest had a combined wealth of USD 90.6 billion in 2005, putting Russia in

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<sup>1</sup> Kalotay 2004, based on Sokolov 1991, Gorshenin 1995 and Bulatov 1998.

<sup>2</sup> WIR 2005, 77.

<sup>3</sup> WIR 2000, 65.

<sup>4</sup> Kalotay 2004.

<sup>5</sup> *Ibid.*

third place behind the United States and Germany in this respect.

## 2) INVESTMENT DESTINATIONS

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It is very difficult to obtain accurate data on investment destinations. Much of the investment is made indirectly through third economies (such as the Bahamas, Cyprus, Panama, Singapore, the British Virgin Islands, Luxembourg, the Netherlands, Austria, Ireland and the United States). Nor is it rare for a Russian investor to set up a company in a host economy and for this firm to establish another in the same economy, so masking the ultimate country of residence.

The main destinations of Russian OFDI in 1995–9 were the United States (USD 1544.2 million; 23.5 per cent), Poland (USD 1112.2; 16.60 per cent) and Germany (USD 1053.9 [Table 4]; 15.73 per cent).<sup>6</sup> From 1994 to 2001, the Commonwealth of Independent States (CIS) played little role, with shares under 10 per cent in 1994, 1996 and 2000. There was a peak (23.5 per cent) in 1999,<sup>7</sup> but in 2002 and 2003, other CIS countries took 4 of the top 10 places for OFDI from Russia.<sup>8</sup> (Table 5)

### 2.1 Russian investment in non-CIS CEE countries

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According to official statistics, Poland was the main CEE destination for Russian OFDI in absolute terms. But the Baltic States are remarkable in relative terms – Russia's share in total stock of OFDI, rank among investors, and OFDI

<sup>6</sup> Kalotay 2003, 11–13.

<sup>7</sup> Kalotay 2004, 6–7.

<sup>8</sup> WIR 2004, 74.

stock per capita. At the end of 2004, the biggest stock of Russian FDI in a Baltic state, some 400 million, belonged to Lithuania. Meanwhile, excluding Russia itself, the main CEE targets of Cypriot investment – or investment through Cyprus – have been Poland (USD 998.9 million on July 1, 2003), the Czech Republic (USD 469.19 million on June 30, 2003), Romania (USD 422.43 million on September 30, 2002), Hungary (USD 315.13 million on January 1, 2003) and Bulgaria (USD 274.5 million on January 1, 2003).<sup>9</sup> (Table 6)

Low reported figures since 2002 for Russian expansion (mainly acquisitions in the oil and gas sectors) have modified the comparative FDI positions significantly. In 2002 and 2003, only two or three of the top five CEE destinations announced cross-border merger/acquisition (M&A) transactions targeted by Russian firms. (Table 7. See also Appendix I)

## 3) COMPANIES, INDUSTRIES AND MOTIVATIONS

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### 3.1. Investor companies

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The biggest investors are natural resource-based firms, with companies from the oil and gas sector (Gazprom, Lukoil, Itera, YUKOS and Rosneft) dominant, although ferrous and non-ferrous metals are also represented, by RusAl, Norilsk Nickel, Severstal and Mechel. The most active non-natural resource-based firm is OMZ (Uralmash-Izhora group). Table 8

<sup>9</sup> The stock of inward FDI came from Cyprus. Pelto *et al.* 2003.

ranks the top 10 Russian-based non-financial TNCs by foreign assets, according to estimates by Vahtra and Liuhto (2004a and 2004b). *Tables 9 and 10* show the results of a survey by UNCTAD. It is surprising that excluding shipping companies, only Lukoil and Norilsk Nickel are on the UNCTAD list of the 25 largest TNCs in the CEE region in 2002. Although a company with foreign assets of USD 17.2 million was rated in the top group, Gazprom was not listed at all. A TNC with foreign assets of less than USD 10.5 billion was ranked 100th in the world by UNCTAD in 2002. According to Vahtra and Liuhto (2004a and 2004b), Gazprom's assets abroad may have reached this size. *Table 10* or WIR 2005 created a new list of top 10 companies from South-East Europe and the CIS, led by Lukoil, but Gazprom, Itera, Rosneft, Severstal and OMZ were not rated.

In 2002 and 2003, in terms of new projects set up abroad, eight of the top 15 Russian outward-investing firms were engaged in natural resource-based activities (Alrosa, Gazprom, Group Alliance, Itera Group, Lukoil, RusAl, RAO UES and YUKOS). Of the remaining 7, 3 were automotive producers and one each an ICT company, a telecom operator, an insurance company and a food producer.<sup>10</sup>

In the financial sector more limited information is provided. Possibly because of the attractiveness of the home market, foreign expansion of Russian banks, except for Vneshtorgbank and Alfa-Bank, lags considerably behind foreign investment by non-financial corporations. According to Liuhto and Jumpponen's 2003 bank survey, the most foreign assets are owned by Vneshtorgbank, Alfa-Bank, Promsvyazbank, Gazprombank, Evrotrast, Russian Interregional Bank for Development, Lanta-Bank and Kreditny Agroprombank.

## 3.2. Motives

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The motivation to be detected in the oil and gas sector comes from *resource-seeking* factors: expansion of the exploration and production base through investments in the Caspian Sea region, Iraq, Libya, Sudan, Columbia, Egypt and Kazakhstan (upstream activities). Internationalization of downstream activities is driven by *market-seeking* and *efficiency-seeking* motives. A growing number of investors are attracted to refineries and distribution infrastructure (sales outlets) in the CEE region, the CIS and the United States, seeking to be near their end-markets and obtain more profit through products with greater added value – refining capacity in host markets can eliminate transportation costs for petroleum products. This allows Russian oil companies can control the entire value chain. Investment in logistic units, oil pipelines and seaports in the EU, the CIS and the United States secures deliveries and minimizes costs. Good examples of this are YUKOS's *strategic asset-seeking* acquisitions in the Lithuanian Mazeikiu Nafta and Slovak Transpetrol.

The main motives of other natural resource-based firms, working in the metallurgical sector, are access to protected markets in the United States and the EU (avoiding export quotas) and diversification of their production. An example is Severstal's *strategic asset-seeking* investment in the US Rouge Industries. With non-ferrous metallurgical firms, *resource-seeking* motives lie behind the acquisition of 20 per cent of Gold Fields Ltd in South Africa by Norilsk Nickel, or RusAl's 20 per cent stake in Queensland Alumina Ltd (QAL) in Australia. Acquiring a *resource base* in Africa is also a key motive for Alrosa, engaged in the diamond industry and present in Angola.

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<sup>10</sup> WIR 2004, 74.

For natural resource-based companies, a *strategic asset or capability-seeking* motive is common in former socialist countries (CEE and CIS), where past experience and relations may provide some competitive advantage over Western companies and there are privatization possibilities, too.

Foreign investment by non-natural resource-based companies is a recent phenomenon and very modest in scale, because such firms are less competitive and marketable (in terms of product and production-quality standards and prices), so that they produce for the domestic market. Despite this, the Russian car industry has prospects in the CIS, Africa and South America and the telecommunications sector very promising ones in the CIS, where the competition level is not as high as in Russia and the market still has considerable growth potential (*market-seeking motives*). Since 2001, Russian registered MegaFon and MTS have been active in that region, and VimpelCom began to expand there in 2004. The favoured destinations are Ukraine, Belarus, Tajikistan, Kazakhstan, Turkmenistan and Uzbekistan. These may be joined next by India.

Other motives suspected include fiscal considerations, transfer pricing (over-invoicing and under-invoicing), and in some cases money laundering and foreign policy (diplomacy).<sup>11</sup>

#### 4) RUSSIAN FDI: CEE COUNTRY ANALYSES

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This chapter aims to identify the main investments and trends in selected CEE countries.

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<sup>11</sup> Liuhto and Jumpponen 2003, Vahtra and Liuhto (2004a and 2004b), Lisitsyn *et al.* 2005, UNCTAD 2005, 7–8.

At the end of 2004, Russia's share in total IFDI stock was 1.96 per cent in Estonia, 7.3 per cent in Latvia and 8.4 per cent in Lithuania.<sup>12</sup> There are several factors behind this notable role in the Baltic States. One is historical: the three countries were parts of the Soviet Union until 1991. Others are that these are the only CEE countries with land borders with Russia (Lithuania with the exclave of Kaliningrad), that the 'gate' to the Baltic is an important aspect for Russia, and that the proportions of Russian speakers (Estonia: 29.7 per cent, Latvia: 37.5 per cent, Lithuania: 8.0 per cent) and of ethnic Russians (25.6 per cent in Estonia, 29.6 per cent in Latvia and 3.3 per cent in Lithuania, according to the 2001 censuses) are significant.<sup>13</sup>

##### *Estonia*

A compilation by Estonian Investment Agency based on the Commercial Register of Estonia and 'Enterprise Estonia' suggests that at the end of 2004, there was a Russian presence in two of the 60 largest firms with a major foreign shareholding: Eesti Gaas AS (19th) and Amando Holding OÜ (wholesale; foreign shareholder Valery Sikorsky, 41st).<sup>14</sup> Gazprom has stakes in all three historical gas monopolies in the Baltic States (Eesti Gaas, Latvijas Gaze and Lietuvos Dujos), holding 37.02 per cent of Eesti Gaas, where Itera (through Itera Latvija) also owns 9.75 per cent.<sup>15</sup>

Lukoil's presence in the Baltic States (and in Belarus) is Lukoil Baltija Group, which is managed by Lithuanian Lukoil Baltija UAB. The group covers seven companies, four of them are registered

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<sup>12</sup> Estonian Ministry of Foreign Affairs 2005.

<sup>13</sup> *CIA World Factbook 2005*.

<sup>14</sup> Estonian Investment Agency (web).

<sup>15</sup> Eesti Gaas 2005, 5. The main activities of AS Eesti Gaas are purchase, distribution and sales of natural gas, as well as maintenance of gas distribution systems, construction of new gas pipelines and development of gas distribution networks. Eesti Gaas (web).

in Lithuania (Lukoil Baltija Servisas UAB, Lamantas UAB, Lukoil Kėdainiai UAB, Mažeikių autotransporto ūkis UAB), and one each in Latvia (Lukoil Baltija R), Estonia (Lukoil Eesti) and Belarus.<sup>16</sup> Lukoil owns 30 filling stations in Estonia, 31 in Latvia and 116 in Lithuania, giving it a strong market share in the retail segment.<sup>17</sup>

Expected to have been among the largest Russian investments in Estonia in 2003–5 are a coal terminal in Muuga (Kuzbassrazrezugol), a railway rolling-stock assembly plant in Ahtme (Uralvagonzavod), and Severstaltrans's projects.<sup>18</sup>

AS Coal Terminal, established in June 2002, is owned by a subsidiary of Kuzbassrazrezugol, Russia's second largest coalmining company. At the end of 2002, the port of Tallinn (the state joint-stock company AS Tallinna Sadam) contracted with AS Coal Terminal to build a coal terminal at Muuga with a capacity of 5 million t a year, due for completion by 2005.<sup>19</sup>

UVZ & AVR, set up in November 2002, is owned by Russian rolling-stock producer Uralvagonzavod and an Estonian transport company AVR Transservice. The plant assembles freight cars in Ahtme in NE Estonia and employs over 100, but this is expected to rise to about 400. It obtained ISO 9001:2000 certification in October 2004 and turned out 1345 rail tankers in 2004. In August 2005, the plant announced it would start assembling freight cars for timber as well.<sup>20</sup>

Severstal's transportation unit, Severstaltrans, is an energetic investor in Estonia, with a 70 per cent stake in

Spacecom Ltd, established in 2003. Spacecom runs a fleet of 10 diesel locomotives, 2 shunters and about 3,500 tanker cars for shipment of oil and gas, making it a major competitor for Estonia's largest rail freight carrier, Estonian Railways. It employs 124. In June 2004, Spacecom and its 10 per cent co-owner Skinest Projekt bought 84.5 per cent of the locomotive repairer Lokomotive in Daugavpilsis, where over USD 10 million is to be invested.<sup>21</sup>

In May 2004, Estonia's AS Trendgate, also linked with Severstaltrans, announced it would build a new oil terminal at Iru, with a capacity of 240,000 m<sup>3</sup>, investing USD 32.45 million in the project. Estonia's two oil terminals, the 50:50 joint venture Pakterminal (Estonian investment firm Trans Kullo and Dutch concern Royal Vopak) and Estonian Oil Service (controlled by Dutch investment firm Baltica Finance) had capacities of 251,000 and 255,000 m<sup>3</sup> respectively, but in November 2004, Severstaltrans bought 70 per cent of Estonian Oil Service, and carried 5.8 million t of heavy products in 2003, so becoming the top player on the Estonian oil and transit-trade market. The terminal is located at Maardu (like Pakterminal's) and the berth facilities are at Muuga Oil products are delivered to the terminal by rail and transported to the port by pipeline.<sup>22</sup>

In banking, International Bank of St Petersburg opened a representative office in Tallinn in 2002.<sup>23</sup>

### *Latvia*

Investment by Russian residents in Latvian companies totalled LVL 95.22 million LVL or 7 per cent of the total (ranking

<sup>16</sup> Lukoil Baltija Group (web), Lukoil Baltija R (web2).

<sup>17</sup> Lukoil Eesti (web), Lukoil Baltija R (web 1), Lukoil Baltija (web).

<sup>18</sup> Kornienko 2004.

<sup>19</sup> HSH Nordbank 2005, 4–5, Äripäev Online 2002.

<sup>20</sup> Äripäev 2005, UVZ & AVR (web).

<sup>21</sup> Yambaeva 2004.

<sup>22</sup> The Moscow Times 2004a, Estonian Investment Agency (2004a and 2004b), Estonian Railways (web), Estonian Trade Council 2005, Spacecom (web), Äripäev 2004.

<sup>23</sup> IBSP (web).

fifth) on December 31, 2004.<sup>24</sup> In terms of IFDI stock at the end of 2004, the largest foreign investors in Latvia were Germany (14.9 per cent), Sweden (14.5 per cent), the Netherlands (9.5 per cent), Denmark (8.9 per cent), Estonia (7.7 per cent), the United States (7.5 per cent) and Russia (7.3 per cent).<sup>25</sup>

Two Russian companies, Gazprom and Itera are the main actors in the Latvian gas industry, as co-owners in Latvijas Gaze, the only firm in Latvia engaged in natural-gas transportation, storage, distribution and sales (until July 1, 2007), with stakes of 34 and 16 per cent respectively. Gazprom raised its stake in Latvijas Gaze to 34 per cent in January 2005, by acquiring an additional 9 per cent per cent from Itera for USD 58 million.<sup>26</sup> Some 75-85 per cent of Latvia's natural gas imports come from Gazprom and the rest from Itera Latvija. As of July 2001 Gazprom was among the 20 foreign companies with the largest investment in Latvia (USD 19.3 million). Russia's state-run oil product pipeline monopoly Transnefteprodukt ranked second with its USD 61.8 million investment in LatRosTrans SIA, owner and operator of main oil pipelines in Latvia totalling more than 700 km, which deliver crude oil and oil products to terminals at Ventspils port and pump crude to Lithuania's Mazeikiu refinery.<sup>27</sup> In the petroleum downstream sector, Lukoil's Lukoil Baltija R, established in 1993, is a leader in the wholesale and retail markets. It manages two oil depots and 31 filling stations, of which 23 are equipped with modules for selling LPG. The company employs more than 400.<sup>28</sup>

In the banking sector, Moscow Municipal Bank—Bank of Moscow holds 99.87 per cent of Latvijas Biznesa Banka

(Latvian Businessbank).<sup>29</sup> Moscow City Government and related entities have 62.2 per cent of Bank of Moscow's equity.<sup>30</sup>

### *Lithuania*

According to Central Bank of Lithuania, the largest investors in Lithuania at the end of 2004 were Denmark (15.2 per cent), Sweden (15.0 per cent), Germany (11.4 per cent), Russia (8.4 per cent), Finland (7.8 per cent) and Estonia (7.6 per cent).<sup>31</sup> But Russia's share is thought to be higher than that, as its outward investors often act through third parties such as Swedish firms. Russia has had great success in acquiring Lithuanian oil and gas companies and chemical and power plants. Russia is involved in banking, and its investors are behind the exploding real estate market in Vilnius and other cities and resort areas. Lithuanian Euro-MP Margarita Starkeviciute in 2004 linked Lithuania's impressive growth rate in 2003 with heavy Russian investment in the country. Russian investments in Lithuania are highly profitable.

In 2002, YUKOS acquired a majority stake in AB Mazeikiu Nafta, including the only refinery in the Baltic States (at Mazeikiai), the Birzai pipeline system, and the Butinge terminal on the Baltic Sea.<sup>32</sup> YUKOS paid USD 150 million for the stake and signed an agreement for a USD 75 million loan to Mazeikiu Nafta, guaranteed by the Lithuanian government. YUKOS agreed in 2002 to deliver at least 5 million t (35 million barrels) of crude per year to the refinery, up to 2012. But for the second quarter of 2005, the state-owned oil pipeline monopoly Transneft did not make the volume for Mazeikiu Nafta available to YUKOS, officially because YUKOS had failed to deliver agreed volumes in the first

<sup>24</sup> KPMG 2005.

<sup>25</sup> Estonian Ministry of Foreign Affairs 2005.

<sup>26</sup> The Moscow Times (2005g).

<sup>27</sup> Wetzel 2004.

<sup>28</sup> Lukoil Baltija R (web2).

<sup>29</sup> LBB 2004.

<sup>30</sup> Bank of Moscow (web).

<sup>31</sup> Bank of Lithuania 2005, 46.

<sup>32</sup> Yukos (web).



quarter. YUKOS severely reduced exports in 2004 due to 'bank-account problems' as part of the tax investigation, and because in December 2004, 77 per cent of YUKOS's main production unit Yuganskneftegaz was sold at auction to Baikalfinance Group, which later resold the shares to the state-owned Rosneft.<sup>33</sup> TNK-BP, PKN Orlen, Gazprom, Lukoil, ConocoPhillips and the Kazakh state-owned KazMunaiGaz also designs to buy stakes in Mazeikiu Nafta. In October 2005, TNK-BP said that YUKOS wants USD 1 billion for the stake.<sup>34</sup>

According to the Lithuanian Development Agency, at the end of 2002, the Luxembourg-based Euro Oil Invest was the 23rd biggest investor in Lithuania (€29 million in Lukoil Baltija). YUKOS was fourth biggest.<sup>35</sup>

At the end of March 2003, a consortium of Gazprom, the Lithuanian power engineering company Dujotekana and the US-based Clement Power Venture (99, 0.5 and 0.5 per cent) agreed to purchase a combined heat and power plant in Lithuania. The locally registered Kauno Termofikacine Elektrine (KTE), formed by the three investors, agreed to pay LTV 116.5 million (33.7 million) for the plant, and the transaction was finalized in May. It also agreed to invest LTV 400 million to develop the plant over 15 years and to continue supplying Kaunas, Lithuania's second biggest city, with district heating and hot water.<sup>36</sup>

In 2003 Gazprom obtained 34 per cent of the vertically integrated gas monopoly Lietuvos Dujos, involved in natural-gas purchase (imports), transmission, distribution and sales. (As of December 31, 2004, Gazprom had a 37.1 per cent stake.) In 2002, other activities such as LPG and gas equipment production were

separated from the company.<sup>37</sup> A total of 2,928 million m<sup>3</sup> of natural gas was imported into Lithuania from Russia in 2004. Under long-term natural gas purchase and sales agreements, this was bought from Gazprom by Dujotekana UAB (1020.2 million m<sup>3</sup>), Lietuvos Dujos AB (933.5 million m<sup>3</sup>), Haupas UAB (16.2 million m<sup>3</sup>), Achema AB (751.8 million m<sup>3</sup>) and Kaunas CPH (207 million m<sup>3</sup>), the last two for their own consumption.<sup>38</sup> Haupas UAB started supplying gas directly to Druskininkai consumers in 2003. With the liberalization of the gas market since 1 January 2004, consumers with an annual consumption of over 1 million m<sup>3</sup> have been recognized as eligible consumers free to choose their supplier.<sup>39</sup> *Figure 1* shows the situation in natural gas supply and consumption in 2002, with the participation of Itera.

In addition, Gazprom holds a 30 per cent stake in Stella-Vitae, the major gas importer in Lithuania until the end of 2001, but replaced by Dujotekana, founded in September 2001. In December 2001, Dujotekana and Gazprom signed a gas-supply contract for a period of 11 years.<sup>40</sup>

In 2002, the largest Baltic phosphate fertilizer plant, AB Lifosa, became part of EvroKhim (EuroChim), owned by the Moscow MDM Group. The Russian mineral and chemical group paid 4.5 million for the 70 per cent stake, which had increased to 91.15 per cent by March 2005. With this investment, Lifosa obtained a stable source of raw materials, receiving most of them from EvroKhim, while the Russian group acquired an effective distribution channel.<sup>41</sup>

Since 2003, Lithuania's Snoras Bank has belonged to the Conversbank Financial Group, consisting of Enisey Joint-

<sup>33</sup> The Moscow Times 2005b.

<sup>34</sup> The Moscow Times 2005o.

<sup>35</sup> Lithuanian Development Agency (web).

<sup>36</sup> Alexander's Gas and Oil Connections 2003b.

<sup>37</sup> Jankauskas 2005.

<sup>38</sup> UKMIN 2005, 32, UKMIN 2004.

<sup>39</sup> UKMIN 2005, 34.

<sup>40</sup> Energyforum.net 2001.

<sup>41</sup> The Baltic Course 2005, Zashev 2004, 18, Rubanov 2003.

Stock Bank, Conversbank–Moscow and Conversbank. Snoras has 10 regional branch offices and 203 mini-banks, and had 700,000 clients on October 1, 2005. It is third in capital size in Lithuania, number of cards issued, and turnover, and fourth in volume of assets. Conversbank bought into Snoras intending to use it as a bridgehead to European business. Snoras has plans to buy banks in Latvia, Cyprus and Austria.<sup>42</sup> In July 2005, it opened a representative office in Latvia, and in September acquired an 83.01 per cent stake in Latvia's oldest commercial bank, Latvijas Krajbanka.<sup>43</sup> Snoras also has four wholly owned subsidiaries in Lithuania.

Mechel acquired a 75.1 per cent stake in the metallurgical plant UAB Mechel Nemunas, located in Kaunas, paying USD 4.0 million dollars in cash in October 2003. Then in November and December 2003, it bought the remaining 24.9 per cent for USD 1.0 million, again in cash. Mechel Nemunas makes wire, nails, rods and nets. Production volume in 2003 was 22,044 t, using semi-finished steel from Mechel's Russian operations.<sup>44</sup>

### *Poland*

Data from the Polish Information and Foreign Investment Agency (PAIIZ) connect almost all the Russian FDI stock in Poland with Gazprom. At the end of 2003, Gazprom had USD 1.284 billion invested in Poland, making it seventh largest foreign investor in the country after France Telecom (USD 4.020 billion), the EBRD (USD 2.695 billion), Fiat (USD 1.769 billion), HVB (USD 1.336 billion), Citygroup (USD 1.300 billion) and KBC Bank N.V. (USD 1.290 billion). It accounted for over 99 per cent of total accumulated Russian IFDI.<sup>45</sup> On December 31, 2004 came a drastic fall as

Gazprom's divested some USD 800 million. This big outflow was the result of remittance of liabilities by the entities with capital cross-ownership. So at the end of 2004, Gazprom ranked only 45th. Lukoil, operating LPG stations, took 708th place, with USD 5.5 million, and Bagdasarian was in 887th place with USD 2.6 million. Gazprom has a 48 per cent stake in EuRoPol Gaz SA and a 16 per cent stake in Gaz Trading SA, as well as 32 per cent of the telecom network operator Polgaz Telekom SA. Gas transporter EuRoPol Gaz SA owns the Polish section of the Yamal-Europe gas pipeline. Gaz Trading SA is engaged in gas marketing and liquefied gas trading. Bagdasarian has a 100 per cent stake in the factory Sniezka Invest Ltd in Swiebodzice, involved in confectionery (chocolate candies) and employing about 80 people.

Russia's leading outward-investing firms have repeatedly addressed the issue of the bad climate for Russian investment in Poland.

### *Czech Republic*

The Czech Republic has seen an enormous increase in IFDI flows from Russia since 2004. According to the Czech National Bank, inward IFDI stock from Russia stood at USD 30.7 million at the end of 2003, with hotels and restaurants accounting for 35.1 per cent, other transport equipment 17.9 per cent, and health services 19.9 per cent.<sup>46</sup> In 2004, the country attracted USD 107.8 million compared with USD 14.2 million received in 2003 (2002 USD 5.2 million, 2001 USD 2.3 million, and 2000 USD -2.7 million).<sup>47</sup> This was partly thanks to sales of three Skoda Holding subsidiaries to OMZ for €36 million. Skoda Jaderne Strojirenstvi produces equipment for nuclear power plants, Skoda Hute and Skoda Kovárny speciality steels.<sup>48</sup> The related technology

<sup>42</sup> News2biz Lithuania 2005.

<sup>43</sup> Snoras Bank (web).

<sup>44</sup> Mechel 2004, 60 and 108.

<sup>45</sup> Durka and Chojna, eds., 2004, 178–80.

<sup>46</sup> CNB 2005.

<sup>47</sup> CNB (web).

<sup>48</sup> České noviny 2004.

and easier access to the markets of Eastern Europe were reported reasons behind the entrance of the Russian industrial group. At the end of 2005, Gazprom's German subsidiary ZMB purchased a 37.5 per cent stake in the Czech gas wholesaler Gas-Invest. The latest news is that in September 2005, the Czech Anti-Monopoly Office approved the sale of the Czech Republic's stake in Vitkovice Steel, the country's largest plate maker, to Evraz for CZK 7.05 billion (c. €233 million).<sup>49</sup> The acquisition is in line with Evraz Group's stated strategy of developing its presence in European markets.<sup>50</sup> St Petersburg's Ilim Pulp Enterprise, the largest pulp and paper manufacturer in Russia (Europe's 4th and the world's 11th largest producer of market pulp) owns Plzenska Papirna, a paper mill employing some 300 people.<sup>51</sup> The Russians also have very significant capital investment in hotels and other real estate in the famous spa resort of Karlovy Vary.

### *Slovakia*

Total Russian FDI stock in Slovakia is very modest; Russia is not among the top 10 investors on which Slovak Investment and Trade Development Agency (SARIO) furnishes data.<sup>52</sup> Russia's FDI position is estimated to be about USD 90 million, but the biggest investment, YUKOS's Transpetrol, was made through the Dutch-based subsidiary YUKOS Finance BV. At the end of 2001, YUKOS won the tender with a USD 74 million for 49 per cent of the Slovak state-owned pipeline company. Transpetrol operates 515 km of oil trunk pipeline in Slovakia, with a total throughput of 21 million t of oil a year. Slovakia wants to buy back these shares due to the so-called YUKOS case. In October 2005, the Slovak economy

minister contacted the Slovak ambassador in Moscow about this. In February 2005, President Putin had already said in Bratislava that the Tartar oil company Tatneft could be a buyer.<sup>53</sup> Gazprom owns 50 per cent of Slovrusgas, which deals with gas transportation and marketing.

### *Hungary*

According to Kalotay 2003, between 1995 and 1999 Russia's accumulated OFDI to Hungary in 1995–9 came to USD 32.9 million or 0.49 per cent of all Russian FDI.<sup>54</sup> Figures from the Central Bank of Hungary compiled from corporate questionnaires suggest that the value of the stock of equity capital and reinvested earnings by Russian residents at the end of 2004 reached €74.1 million or 0.22 per cent of the total IFDI stock in Hungary. Between 1998 and 2003, the Russian share was stable at 0.25, 0.27, 0.21, 0.25, 0.23 and 0.22 per cent, respectively. But the Russian FDI stock in euro terms almost doubled in those six years. However, Hungary is not considered a major target for Russian OFDI.

Until the recent past, Gazprom was one of the most significant Russian players in the Hungarian market. The company in which it has an interest, Panrusgáz Hungarian-Russian Gas PLC, was established in October 1994 by MOL Hungarian Oil and Gas Company (50 per cent) and Gazprom through Gazexport (40 per cent) and the British Virgin Islands-registered Interprocom & Co. Ltd (10 per cent). In terms of net sales revenues, Panrusgáz was Hungary's eighth largest company in 2003.<sup>55</sup> Its main activity is sales in Hungary of natural gas originating from Gazprom, although it also promoted exports of Hungarian products from the outset.

<sup>49</sup> The Moscow Times 2005k.

<sup>50</sup> Evrazholding 2005.

<sup>51</sup> Vahtra and Liuhto 2004a and 2004b, 64.

<sup>52</sup> SARIO (web).

<sup>53</sup> Ľurianová 2005.

<sup>54</sup> Kalotay 2003, 11–13.

<sup>55</sup> Figyelő TOP 200 2004, 28.

Until the autumn of 2005, Gazprom also held a 25.52 per cent stake in General Banking and Trust Co. Ltd (ÁÉB), which joined the Gazprom group in 1996, when its entire equity was acquired by Gazprombank. As the bank's paid-up capital increased, the ownership structure underwent significant change. Gazprom's stake notably decreased, while stakes of less than 10 per cent were acquired by several other companies and individuals, some of which were considered by the market to be non-transparent with an uncertain background, and some were registered in offshore zones: Sharmoor SA (Bahamas), Undall International Ltd (British Virgin Islands), Milford Holdings Ltd (Ireland), Fernmine Ltd (United Kingdom), Pensiero Overseas Ltd (Cyprus) and Cubbaren Ltd (Isle of Man) were in question. During 2003 and 2004, these stakes passed to Kafijat Trading and Consulting Ltd (74.48 per cent), a Hungarian-registered company owned by the Russian-born ÁÉB chairman and chief executive officer Megdet Rakhimkulov, former head of Panrusgáz, and his family. He was reported in October 2005 to be the richest person in Hungary, with an estimated USD 398 million.<sup>56</sup> In 2003–4, Kafijat Ltd took over IGM Trading and Services Co. Ltd, Intergazprom-Invest Holding Co. Inc. and Interenergo Trading and Services Co. Ltd, which all had portfolio investments in ÁÉB. In September 2004, Gazprom decided to dispose of its remaining 25.52 per cent investment, and Kafijat's London-based subsidiary Firthlion Ltd was approved to buy the block stake in October 2005.<sup>57</sup> Besides Gazprom, Rossiyskiy Kredit Bank, Baltiyskiy Bank and Vnesheconombank have representative offices in Hungary, according to the *Hungarian Financial and Stock Exchange Almanac*.<sup>58</sup>

Meanwhile ÁÉB has an 18.1 per cent stake in DKG–East Oil & Gas Equipment Manufacturing Co. Inc., one of the major suppliers to the Hungarian oil and gas industry,<sup>59</sup> and is sole owner of the real estate utilization company Binimex Ltd.<sup>60</sup> However, in the autumn of 2004, ÁÉB sold its 50.11 per cent stake in Zalakerámia, engaged in production of tiles and construction materials, to Lasselsberger Ceramics Ltd, the Hungarian subsidiary of an Austrian professional investor.

Rakhimkulov's Firthlion Ltd has a 15.85 per cent stake in Hungary's national broadcaster Antenna Hungária PLC. and 10.02 per cent of the BorsodChem chemical complex, which produces plastic materials and isocyanate, as well as being the largest PVC producer in Central and Eastern Europe. Although in 2000–2002, Gazprom had stakes in the Hungarian chemical industry through Milford Holdings Ltd and Sibur International Ltd, these have now been shed and it no longer has stakes either in BorsodChem or the Hungarian olefin and polyolefin producer Tiszai Vegyi Kombinát (TVK, representing over 20 per cent of the region's petrochemical capacity). However, some market players suspect that BorsodChem's and TVK's Austrian-registered shareholders – VCP Vienna Capital Partners Unternehmensberatungs AG and its subsidiaries CE Oil & Gas Beteiligung und Verwaltung AG and VCP Industrie Beteiligungen AG (former corporate name: Aurora Holding AG) – are closely related to Gazprom.

Lukoil is also on the Hungarian market. Lukoil Downstream Magyarország Kereskedelmi Kft. was set up in September 2003 by Amsterdam-based Lukoil Europe Holdings BV and British Virgin Islands-based Lukoil International Invest BVI. Until the end of 2002, Lukoil managed Lukoil Hungary Kereskedelmi Kft., and until 2003, there was a trade rep-

<sup>56</sup> The Moscow Times 2005n.

<sup>57</sup> Híradó 2005.

<sup>58</sup> HFSEA (web).

<sup>59</sup> DKG-East Annual Report 2004.

<sup>60</sup> FigyelőNet 2003b.

representative office in Hungary, too. By March 2005, Lukoil had 26 filling stations in Hungary, with a 1–1.5 per cent share in the retail petrol market and a 2–3 per cent share in the wholesale market.<sup>61</sup> Lukoil controls Stavrochem Chemical Trading Co. Ltd through Dutch-based Lukoil Chemical BV and the Belgian Lukoil Chemical Trading N.V. YUKOS's Dutch subsidiary YUKOS Finance BV established a trade representative office in Hungary in March 2003 and the group was the main crude oil supplier to Hungary until the beginning of 2005. But after YUKOS's Geneva-based oil-trading unit Petroval indicated that deliveries would be missed, MOL signed a five-year supply contract with YUKOS's rival, Lukoil, for annual delivery of 5 million tones of crude oil to Hungary and Slovakia.<sup>62</sup>

### *Slovenia*

At the end of 2001, 2002 and 2003, the Central Bank of Slovenia reported negative values for Russia's total IFDI stocks in Slovenia (€1.5, 2.3 and 4.7 million), with claims exceeding liabilities, although equity capital remained positive. Nor is this expected to grow, mainly because Russia's oil and gas companies prefer other ex-Yugoslav states, or Romania, Bulgaria and Greece in the Balkans. Slovenia is a small market with relatively strong competition.<sup>63</sup> It does not import crude oil from Russia, although it receives Russian oil products. Most of its natural gas imports come from Russia, but amount to only 0.11 per cent of Russia's natural gas exports by volume (2004).<sup>64</sup>

### *Romania*

Russian capital is engaged in the Romanian gas, oil, aluminium and steel sectors, as Gazprom, Lukoil, OMZ, RusAl and TMK have interests in the country.<sup>65</sup> Some of them are present in the market through non-Russian-based subsidiaries, so that they are not covered in the official statistics, which are not available in any case.

Gazprom, through its German-based subsidiary ZGG GmbH, holds a 50 per cent stake in WIEE Romania SRL (non-active) and a 26 per cent stake in Wirom Gas SA (focus on gas import and distribution).<sup>66</sup> In 1998, Lukoil Europe Ltd won a tender to purchase a 51 per cent stake in Petrotel refinery in Ploesti (for USD 53.2 million), which has since increased to 94.7 per cent. Petrotel is one of the three refineries Lukoil controls outside Russia, the others being Lukoil-Neftokhim Burgas AD in Bulgaria and OAO Lukoil-Odessa Refinery in Ukraine. The Petrotel refinery closed down for upgrading in mid-2001 and only started up again in October 2004. The plant produces oil products in line with the Euro-3 and Euro-4 standards.<sup>67</sup> According to Lukoil-Petrotel, Lukoil invested almost USD 570 million in Romania between 1998 and 2004, of which USD 283 million was in the refinery and USD 285 million in the development of Romanian retail infrastructure, as Lukoil-Petrotel runs 288 filling stations and 10 tank farms in the country. Lukoil plans to invest another USD 70 million in the crude-oil processing industry and USD 50 million on sales units for oil products in 2005–7. It controls almost 20 per cent of the Romanian market for petroleum products, employing around 5000, including over 1200 at the refinery.<sup>68</sup> In September 2003, Lukoil took over MV

<sup>61</sup> GVH 2005, Máté 2005, Lukoil Press Release 2005a.

<sup>62</sup> Bloomberg 2005.

<sup>63</sup> Vahtra and Liuhto 2004a and 2004b, 19.

<sup>64</sup> Gostamkom 2005, 75.

<sup>65</sup> Voica (n.d.)

<sup>66</sup> ZGG 2005, 14.

<sup>67</sup> Lukoil (web).

<sup>68</sup> Lukoil Romania (web), Mihailescu 2005, Lukoil Press Release 2004b.

Properties SRL for USD 121 million, of which USD 61 million was debt repayment for the previous owner. The firm has 75 fuel stations and 7 fuel-storage facilities.<sup>69</sup>

RusAl, which accounts for a total of 75 per cent of Russia's primary aluminium output and 9.9 per cent of global primary aluminium supply, acquired Cemtrade SA, an alumina refinery in Oradea in spring 2000. Although the plant was in a desperate state, RusAl managed to make substantial improvements, and after an investment of USD 5 million, alumina production began in January 2001. But the situation began to worsen in the summer of 2001, as heat, electricity and transportation costs rose and markets weakened. RusAl tried in vain to obtain some concessions from the Romanian state. Then it was decided to suspend production at Cemtrade indefinitely.<sup>70</sup> It is questionable why RusAl did not bid for the Romanian aluminium smelter Alro in Slatina. If Cemtrade had bought it, RusAl would have been able to operate under the energy prices imposed at that time, saving costs on transporting alumina to Siberia.<sup>71</sup> The most recent information (June 2004) showed that efforts had been made since March 2004 to restart production.<sup>72</sup>

TMK and Mechel each have two interests in Romania. TMK Pipe Metallurgical Co., one of the world's three largest pipe producers, acquired a controlling stake in the pipe plant ArtRom SA in 2001, and in 2004, a 90.54 per cent stake in steelworks Combinatul Siderurgic Resita, the third largest manufacturer of strips and rolled steel in Romania. It was agreed to pay a symbolic 1 for the Resita factory, but it was also promised to take over the plant's debts of USD 10

million and to invest USD 15 million in development.<sup>73</sup> Both firms are owned through the Germany-based Sinara Handel GmbH, a trading company of TMK. Artrom Slatina exports some 80 per cent of its output, the most important foreign markets being Germany, Austria, Belgium, the Netherlands, Luxemburg, Sweden, Norway, Denmark, Great Britain, the United States, Canada and the United Arab Emirates. There has been a significant growth in exports in the recent years.<sup>74</sup> Mechel, producing 39 per cent of total Russian speciality steel output, holds through Swiss-based Mechel Trading AG a 81 per cent stake in SC Industria Sarmei SA (a manufacture of semi-finished steel products and steel long products), and in COST SA (Combinatul de Oteluri Speciale Targoviste, a manufacturer of carbon and speciality steel long products and of forgings).

Last but not least, OMZ acquired in 2001–2 a 66 per cent interest in SC UPET SA, a Targovisti-based facility specializing in the manufacture of mobile rings, components for offshore rigs and metal valves. UPET's main export partners in 2003 were Ukraine, India, Kazakhstan, Syria and Tunisia.<sup>75</sup> In May 2004, the company (as part of the oil and gas equipment and shipbuilding business segments) was sold to members of the OMZ management.<sup>76</sup>

### *Bulgaria*

The Bulgarian energy sector seems highly attractive to Russian OFDI companies. Gazprom is present with Topenergy and Overgas, Neftochim Bourgas has been acquired by Lukoil, and there is a possibility of participation by RAO UES in the modernization of Bulgaria's power sys-

<sup>69</sup> Ernst&Young 2004, Ion 2004, INGfn Romania 2004, Lukoil 2005, 148.

<sup>70</sup> Albert 2002, Szeghalmi 2001, PR Newswire's News Release 2001, RusAl (web).

<sup>71</sup> Plunkert 2005.

<sup>72</sup> Králik 2004.

<sup>73</sup> Vedomosti 2004, RusTrubProm 2004, Interfax 2004.

<sup>74</sup> Bulandra 2005.

<sup>75</sup> Voica (n.d.)

<sup>76</sup> OMZ 2005, 22 and 43.

tem.<sup>77</sup> (Russian capital has positions in the Bulgarian hotel sector, too.)

Topenergy, a gas trading and transport company in Bulgaria, is a wholly owned subsidiary of Gazprom. Overgas Inc. AD, owned 50 per cent by Gazprom, is the biggest private gas retailer and private investor in the Bulgarian gas market. Besides gas marketing (wholesale and retail), Overgas Inc. AD is also engaged in construction and operation of gas transportation networks. At the end of 2003, Overgas Inc. AD held majority stakes in 26 local distribution firms operating in 25 municipalities with a combined population of 2.7 million.<sup>78</sup>

In October 1999, Lukoil purchased through Lukoil Europe Holdings BV a 58 per cent stake in Bulgaria's Neftochim Bourgas AD, the biggest refinery in the Balkans, along with a petrochemical complex producing fuels, petrochemicals and polymers, all for USD 101 million. (That year, Lukoil produced 7 per cent of Bulgaria's GDP, contributed 25 per cent of the country's tax revenue, and employed over 9000. In 2003, Neftochim Bourgas was Bulgaria's largest taxpayer and produced 9 per cent of GDP.)<sup>79</sup> Lukoil's share in the equity capital was increased to 93.16 per cent in early 2005, when the total size of the company's investment in the refinery was estimated at USD 400 million. The upgrade programme at the refinery is expected to bring it to the EURO-3 standards in 2007 and EURO-4 standards in 2009<sup>80</sup> required by EU legislation on the quality of produced petroleum products and environmental protection; Bulgaria will join the EU in 2007.<sup>81</sup>

Lukoil Bulgaria Ltd, the commercial outlet of the complex, including oil terminals, petrol and gas stations, special-

ized in export and trade of fuels, petrochemicals (glycols, toluene, styrene, ACN) and polymers (LOPE, polypropylene, polystyrene, SBR and acrylic fibres).

For several years, Lukoil has been interested in buying Petrotel AD, the largest fuel retailer in the country with 450 filling stations (also for LPG), 80 petrol depots and 3 port oil terminals. According to public Bulgarian sources, Lukoil agreed in December 2004 to buy from the majority owner Petrol Holding AD an 18.3 per cent stake in Petrotel AD worth USD 55 million, but the author has no information on whether the transaction was completed. Petrol AD's total value was estimated at USD 303 million at the time. Back in 1999, Lukoil had submitted a bid in a privatisation tender for a 51 per cent stake in Petrol AD.<sup>82</sup>

In May 2005, Bulgaria's Privatization Agency chose Unified Energy Systems (RAO UES) as buyers for the Varna and Ruse thermal power plants, for €578.8 million and €178.2 million respectively, but anti-trust problems meant that negotiations were confined to Varna. At the end of October, the planned sale was delayed for the sixth time.<sup>83</sup>

Despite these investments, preliminary data from the Central Bank of Bulgaria suggests that the Russian FDI stock in Bulgaria in 2004 came to only USD 42.6 million. However, the Netherlands with USD 840.8 million and Cyprus with USD 475.7 million invested in Bulgaria stand at 2nd and 5th largest investment sources respectively. Lukoil Europe Holdings BV, for instance, is Dutch-registered, and the case of Cyprus, trans-shipped FDI may mean that some of the largest investments have a connection with Russia.

<sup>77</sup> Interfin Capital 2005.

<sup>78</sup> Overgas (web), Sofia Municipality 2004.

<sup>79</sup> Lukoil Bulgaria (web), SofiaEcho.com 2004.

<sup>80</sup> Lukoil Press Release 2004a.

<sup>81</sup> Lukoil 2005, 118 and 150.

<sup>82</sup> Lukoil Press Release 1999, The Moscow Times 2004b, FigyelőNet 2004c, Petrol (web).

<sup>83</sup> The Moscow Times 2004c, e, f, j, m, p, Menedzsment Fórum 2005.

## *Serbia and Montenegro*

According to the Serbian Investment and Export Promotion Agency (SIEPA), Lukoil was the country's 4th largest foreign direct investor (€210 million) in 2002–4,<sup>84</sup> after Philip Morris (€518 million), Interbrew (€326 million) and Banca Intesa (€277 million).<sup>85</sup> The privatized Beopetrol with 179 filling stations is Serbia's 2nd largest fuel retailer. In 2001, 17 contracts were concluded with Russian firms in Serbia, but totalling only €327,100 (ranked 22nd), as compared with five deals completed in 2000.<sup>86</sup> The National Bank of Serbia suggests that IFDI from Russia to Serbia reached €2.6 million in 2002 (ranked 14th, 2.4 per cent of the total), and only a modest increase ensued in 2003, when IFDI from Russia amounted to €3.4 million (19th, 1.0 per cent).<sup>87</sup>

In early 2004, the Montenegrin Agency for Economic Restructuring and Foreign Investment estimated Montenegro's total IFDI stock at just under 500 million. The main source countries are Slovakia, Slovenia, Japan, Russia and the United States.<sup>88</sup> Russian investors in Montenegro prefer to buy hotels and land, above all on the coast.<sup>89</sup> In April 2005, RusAl won a tender for a 65.44 per cent stake in Kombinat Aluminijuma Podgorica (or KAP), an aluminium maker, which accounts for half of Montenegro's industrial output and 80 per cent of its exports.<sup>90</sup> The shares in RusAl were then bought up in July 2005 by Basic Element, its management company. The Montenegrin government announced that

<sup>84</sup> The information is inaccurate; Lukoil offered 117 million in 'cash' and investment of 85 million to develop the company within three years of acquisition, as well as 8 million on social programmes.

<sup>85</sup> SIEPA (web2).

<sup>86</sup> SIEPA (web1).

<sup>87</sup> SIEPA (web2).

<sup>88</sup> U.S. Commercial Service (web).

<sup>89</sup> Ramusovic 2004.

<sup>90</sup> The Moscow Times 2005d.

the stake had cost €48.5 million, and the new owner would have to invest €55 million in modernizing the company and €20 million on environmental protection in Montenegro.<sup>91</sup> In the autumn of 2004, Russia's SUAL, one of the top ten aluminium companies in the world, also purchased the tender documentation for the privatization of KAP.

In Serbia, BK Trade has a 51 per cent stake in mobile telephone operator Mobtel. Until August 2005, Moscow-based BK Trade was part of the BK Group of the Serb Bogoljub Karić, but under a May 2005 takeover, it went to an Austrian consortium of Martin Schlaff, Josef Taus and Herbert Cordt.<sup>92</sup> Russian firm AFK Sistema also showed interest in the privatization of Telekom Montenegro, later purchased by Hungary's Matáv (now Magyar Telekom).

## 5) RUSSIAN FDI AND DEPENDENCE ON RUSSIAN OIL AND GAS

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This chapter discusses the association between Russian firms' gas and oil-related investment in CEE countries and national dependence on Russian natural gas and crude oil (*Table 11 and 12*).

Gazprom is clearly the leading Russian outward investing firm in the CEE gas sector. Lukoil's top position in the oil sector is obvious; it owns over 1200 filling stations in the region.

The new EU members import 80 per cent of their oil and 75 per cent of their gas from Russia, compared with some 15 per cent and 20 per cent for the EU-15. So their efforts to diversify are understandable, although their Russian partners have proved very reliable.

<sup>91</sup> RIA Novosti 2005.

<sup>92</sup> FSEE 2005, East Express 2005, 2.



The EU-15, on the other hand, intend to rely more strongly on Russian oil and gas in the immediate future. Unfortunately, Eurostat has yet to give quantity data for the external trade. According to the value data, 21.8 per cent of the EU's total crude oil imports in 2003 came from Russia, as opposed to 14.4 per cent in 1999. Russia was the second largest oil supplier to the EU-15 (€19,753 million) after Norway (€20,263 million). As for EU dependence on Russian oil products, Russia's share of deliveries reached 34.3 per cent and in natural gas 11.5 per cent in 2000, the latest year for which figures are available.

But this dependence on Russia is not unilateral, as 15.01 per cent of Russian natural gas exports and 13.66 per cent of its crude oil exports went to the Visegrád countries (Czechoslovakia, Hungary, Poland and Slovakia) in 2004 (quantity data).<sup>93</sup> Russia, strongly reliant on earnings from natural resources, has a strong commercial interest in controlling national distribution networks.<sup>94</sup>

Russian oil and gas companies have been keen competitors for major players based in this region, such as Austria's OMV, Poland's PKN Orlen and Hungary's MOL. Meanwhile some large multinational and transnational oil corporations have decided to exit from the market. Shell Group sold its Romanian filling stations to MOL and was planning to dispose of its local LPG unit, Shell Gas Romania, by 2005. BP has also been withdrawing from Central Europe. In December 2002, PKN Orlen obtained 494 Aral and BP petrol stations in Northern Germany as part of a deal in which BP gained regulatory approval to acquire Veba Oil. In early 2003, OMV purchased 55 Hungarian, 11 Slovak and 247 Southern German Aral filling stations. In October 2005, OMV bought 70

petrol stations from BP's Czech Aral unit.<sup>95</sup> The Polish Grupa Lotos acquired 39 Esso stations in Poland from the American Exxon Mobil in the summer of 2005.<sup>96</sup> In September 2005, Slovnaft Polska SA, a member of MOL group, signed a preliminary sale agreement with Lotos Paliwa, a subsidiary of Grupa Lotos, to divest the former's retail business in Poland.<sup>97</sup>

Although it is difficult to judge exactly the value of the financial resources Russian corporations command, and what profit can be made out of a CEE acquisition in the long term, it is certainly untrue that "the Russians will buy everything that is available." There are mature strategies behind Russian OFDI. In some instances in recent years, Russian corporations, particularly in the oil and gas sector, have not been selected as privatization partners or they have withdrawn from the tendering process. (In what follows, the winner of the tender has been placed in parentheses. In some cases, the transaction has not yet been completed.)

Gazprom had intended to buy Romania's two main gas distributors, Distrigaz Nord and Distrigaz Sud. Distrigaz Sud has some 2.5 million customers in Southern Romania and Distrigaz Nord 1.3 million customers in the north (Ruhrgas and Gaz de France in 2004, 31 or 51 per cent).<sup>98</sup> Gazprom and TNK-BP applied to take part in the tender for Romania's Petrom, which possesses two refineries with a total capacity of 8 million t (Arpechim and Petrobrazi integrated refining and petrochemicals complexes), one fertiliser plant (Doljchim), and a network of 612 filling stations and 112 terminals. The production levels for 2004 amounted to 5.46 million t for crude oil and 6.44 billion standard cu. m for gas (OMV in

<sup>93</sup> And almost 20 per cent of Russia's 2004 natural gas exports outside the CIS and Baltic States went to the V4.

<sup>94</sup> Gostamkom 2005, 72–5.

<sup>95</sup> Barát and Sándorfi 2005, Népszabadság 2004, Energiainfo.hu 2005d, eBroker.hu 2005b.

<sup>96</sup> Energiainfo.hu 2005f.

<sup>97</sup> Budapest Stock Exchange 2005.

<sup>98</sup> Reuters 2004, FigyelőNet 2004a, b.

2004, 51 per cent).<sup>99</sup> MOL's gas subsidiaries, MOL Natural Gas Transmission PLC, MOL Natural Gas Supply PLC and MOL Natural Gas Storage PLC, along with Panrusgáz Hungarian-Russian Gas PLC seemed to be very attractive targets for Gazprom (E.ON Ruhrgas International in 2004–5; a two-year option on up to 75 per cent minus 1 of Natural Gas Transmission, 75 per cent minus 1 and five-year options for remaining 25 per cent plus 1 of Natural Gas Supply and Natural Gas Storage, 50 per cent of Panrusgáz; the transactions are subject of approval.)<sup>100</sup> In July 2005, Gazprom decided not to exercise an option to buy for \$900 million a 16.3 per cent stake in the Slovak pipeline operator Slovensky Plynarensky Priemysel – SPP – which transports Russian gas to European markets (Ruhrgas and Gaz de France, which hold a total of 49 per cent), due to the unclear benefits of the deal and plans to develop the North European pipeline. SPP, an integrated gas company (excluding exploration and production) covering storage, transportation and trade, has launched extensive restructuring.<sup>101</sup>

Tatneft was interested in the privatization of the Czech Unipetrol, a group operating in the chemical sector, primarily in crude oil processing, petro-chemistry and fertilizer production (Česká rafinérská and Paramo: producers of motor fuels, bitumen, lubricants and other products related to crude oil processing; Chemopetrol, Kaučuk and Spolana: production of petrochemical products and plastics; Benzina: network of petrol stations in the Czech Republic; Lovochemie: producer of industrial fertilisers and other inorganic chemicals; Aliachem: organic and inorganic chemistry and processing of plastics). Though Tatneft had offered CZK 1 billion more than PKN Orlen, it was not short-listed (PKN Orlen in

2004–5, 63 per cent).<sup>102</sup> Rosneft, Lukoil and Sibneft had also expressed interest in acquiring a 25 per cent plus one stake in the Croatian INA – Industrija Nafta d.d. Zagreb. The short-list also included Lukoil and Rosneft. In 2001, INA produced 2.0 million tons of crude oil and 1.8 billion cubic metres of natural gas in Croatia and abroad. INA owns and operates two fuel refineries (Rijeka and Sisak) and two lube refineries (Rijeka and Zagreb) in Croatia. On December 31, 2001, INA had a network of 397 petrol stations across Croatia (MOL in 2003, 25 per cent plus one).<sup>103</sup> Inter RAO UES – a UES joint venture with the nuclear generator Rosenergoatom – was among three firms that submitted bids for a 66 per cent stake in the Slovak state power utility Slovenské Elektrárne, including nuclear assets, in August 2004 (Enel in 2004, 66 per cent).<sup>104</sup> In December 2003, Severstal failed to win the tender for Hungary's steel group Dunaferr, for which Russia's Mechel had also announced its intention to bid (Ukrainian-Swiss Donbass-Duferco consortium in 2003, 79.48 per cent). Russia's largest steel producer Evraz confirmed interest in Hungarian DAM Steel, but although representatives of the Russian holding company had paid a visit to Hungary in April 2004, Evraz did not purchase it.<sup>105</sup>

## 6) THREATS

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This chapter analyses the different attitudes to Russian FDI. In developing countries, a Russian presence is mostly welcomed, sometimes as a counterweight

<sup>99</sup> Petrom (web), Petrom 2005.

<sup>100</sup> E.ON 2004.

<sup>101</sup> Index 2004, eBroker.hu 2005a, Energiainfo.hu 2005c, e, The St. Petersburg Times 2005.

<sup>102</sup> Unipetrol (web), Tózsdefórum 2004, Floreno 2004.

<sup>103</sup> Napi Online 2002a, FigyelőNet (2002b), Új Szó 2003, Government of the Republic of Croatia 2002, INA (web).

<sup>104</sup> Politikafórum 2004.

<sup>105</sup> Origo 2004b, c.

to US dominance. The developed world has been mostly neutral on the question so far, since it has low economic dependence on Russia, but attention is paid to energy-related investments, due to increasing demand for Russian energy sources. The ex-socialist CEE countries usually feel negative about Russia obtaining capital stakes in companies. In the CIS countries, Russian IFDI has had a stronger influence and met lower resistance than it has in the CEE countries, but some change can be experienced.<sup>106</sup>

The reasons for CEE resistance to Russian IFDI are these:

- (1) Memories of Soviet politics in the past. Historically, there is deep concern over this in the Baltic States and in Poland.
- (2) Fear of losing control over industries of strategic importance or over the commanding heights of the economy. This became evident when the potential merger of PKN Orlen and MOL Hungarian Oil and Gas Company was cancelled in April 2004. A study made for the Polish government found that the planned merger could end in a takeover by YUKOS.<sup>107</sup>
- (3) Lack of transparency. There is suspicion when the company is not transparent or the investors' real intentions are unclear, or the acquiring company intends to buy indirectly, through other affiliated companies, for example offshore firms. This was the case with the BorsodChem chemical plant in Hungary, where Gazprom acquired a stake through Irish-based Milford. Yet using offshore companies for investing abroad is an accepted custom of transnationals. Host countries also look askance at Russian investors that do not follow Western business standards (clear company strategy, accounting and taxation, public financial and audit reports and other releases). YUKOS

was regarded by the market as a transparent firm, which was one of the main reasons for its buoyant share price. YUKOS is the only Russian company that has been truly welcomed as a direct investor in Central Europe.

- (4) Methods supposedly used to acquire a selected foreign company. Five negative examples that became well known in the CEE countries all made the Russian investors concerned unwelcome.

(a) In the Ventspils case in *Latvia*. Russia's state-owned oil pipeline monopoly, Transneft, stopped shipping Russian crude oil through the port of Ventspils at the end of 2003, citing technical reasons. Transneft almost certainly wanted to acquire Ventspils at a fraction of its real value, as the Latvian government was planning to sell its 42.68 per cent stake. But the oil could only be diverted to Novorossiysk on the Black Sea, which is frequently disrupted by storms and high seas in the colder months, or to the new Russian port of Primorsk on the Baltic Sea which is iced up for several months a year. Companies responded by increasing rail shipments, at greater expense.<sup>108</sup>

(b) In the Bulgartabak case, *Bulgaria's* tobacco holding company was to be privatized in 2002. First, Moscow announced it still had claims to assets in the group as part of Bulgaria's post-war reparations. Russia informed all Western bidders of this, but failed to offer documentary evidence. The Bulgarian government cited a 1953 agreement, under which the Soviets could make no further claims on Bulgarian assets. Three of the four consortia bidding involved Russian

<sup>106</sup> Liuhto and Jumpponen 2003, 117–19.

<sup>107</sup> Energiainfo.hu 2004.

<sup>108</sup> Socor 2003, Zaslavsky 2003, RZD Partner Business Magazine 2004.

capital. The best offer was made by the Sofia-based consortium Tobacco Capital Partners and the Dutch company Clar Innis, the only applicant with no Russian affiliations. Opening the bids, the president of Grandtabak, the Association of Russian Tobacco Distributors, stated that if the Russian interests were not considered, Bulgarian tobacco products would be excluded from the Russian market. The failed candidates filed complaints against the privatization, and the Supreme Administrative Court annulled the Privatization Agency decision.<sup>109</sup>

- (c) The Mazeikiu case in *Lithuania* followed a longstanding national policy of fending off Russian investment for reasons of national security. Lukoil participation in the construction of Butinge terminal in exchange for shares was categorically rejected in 1994. In 1997–9, the privatization of Mazeikiu Nafta also met political resistance, and at the end of the process, 33 per cent of the shares passed to the US firm Williams International.<sup>110</sup> The disappointed Lukoil discovered various technical reasons for not sending oil, causing a shortage that put the refinery out of operation for a while and caused the company heavy losses. In mid-2001, Mazeikiu Nafta and YUKOS signed an oil supply deal, which alleviated the supply problems, but the company still lost money. Finally, YUKOS obtained a 53.7 per cent stake in the company in 2002.<sup>111</sup>

- (d) Russia cut gas supplies to *Belarus* at the end of January 2004 when

Belarus refused to sell a 51 per cent stake in BelTransGaz for USD 306 million or pay more for Russian gas.<sup>112</sup> Raising oil and gas export prices in the former Soviet states (the ‘near-abroad’ and the Baltic) has been on agenda for a long time. The issue is not free from political considerations, but market prices would need to be obtained sooner or later. In 2003, Belarus was importing natural gas at USD 30 per 1000 cu. m, corresponding to the Russian domestic price level, and the new price was to be USD 50.<sup>113</sup> Agreement was finally reached, but not before the Belarus president had threatened Putin with re-examining the union treaty between the two countries. Moreover, Gazprom’s decision to cut gas supplies to Belarus also involved a 30 per cent cut in deliveries to Poland. Thus the Polish oil and gas company (PGNiG) and Norwegian Statoil began discussions on a memorandum on cooperation for diversifying gas deliveries.<sup>114</sup> The contract, concluded only in June 2004, fixed the gas price for Belarus at USD 46.68,<sup>115</sup> while Western European customers were paying about USD 185–190. In late summer 2005, Gazprom announced that its gas price to the Baltic States and Moldova would reach the European average in three years. Latvia is currently paying USD 92–4, Lithuania USD 85, Estonia USD 90 and Moldova USD 80.<sup>116</sup> Such a drastic increase may jeopardize the introduction of the euro in the Baltic States, by accelerating the inflation rate.<sup>117</sup> Russia also in-

<sup>109</sup> The Moscow Times 2005a, Staneva 2002, Kamakin 2005, Vatahov 2002, SofiaEcho.com 2003.

<sup>110</sup> Zashev 2004, 12–16.

<sup>111</sup> Alexander’s Gas and Oil Connections 2003a.

<sup>112</sup> HVG 2004a.

<sup>113</sup> HVG.hu 2004b.

<sup>114</sup> Origo 2004a.

<sup>115</sup> Energiainfo.hu 2005a.

<sup>116</sup> The Moscow Times 2005h, Energiainfo.hu 2005b.

<sup>117</sup> Világgazdaság 2005a.

tends to sell gas to Ukraine for USD 160 instead of the present USD 50.

- (e) During privatization of Rafineria Gdanska in *Poland*, MOL, a consortium of Lukoil and Rotch Energy and later a consortium of PKN Orlen and Rotch Energy tried unsuccessfully to buy 75 per cent of the company. The question of giving a chance to a Russian strategic investor had arisen again. Meanwhile, Piotr Czyzewski, a new treasury minister, chose to reorganize the oil sector and dropped privatization idea. As a first step in June 2003, Rafineria Gdanska was merged with three smaller refineries as Grupa Lotos. In July 2003, Poland's richest man, Jan Kulczyk, had a meeting in Vienna with a reputed Russian spy, Vladimir Alganov, who introduced himself as a manager of RAO UES. (At that time, Kulczyk had a 5.6 per cent stake in PKN Orlen.) Alganov said that a Russian oil company had paid USD 5 million to the Polish privatization minister and to the head of the Nafta Polska to ensure it won the tender, but the company was not sold. Kulczyk said that he would be able to lobby the Polish president and to secure the deal.<sup>118</sup> Certain CEE countries suspect political motives or oil and gas diplomacy behind the investments. For example, the Russian state has owned more than 50 per cent of Gazprom directly since June 2005, and Rosneft is a 100 per cent state-owned company.<sup>119</sup> Moreover President Putin's confidants were appointed to high positions in the sector (Gazprom: Dmitry Medvedev; Rosneft: Igor Sechin; Transneftprodukt: Vladislav

Surkov; Transneft: Viktor Khristenko).

- (5) CEE countries question whether there are guarantees to validate property rights in Russia and what effects violation of property rights could have on a foreign company. This uncertainty is reflected, for instance, in the movement of Mazeikiu Nafta share prices.<sup>120</sup>
- (6) CEE countries suspect that Russian outward investors accustomed to bribery, corruption and other illegal techniques at home may apply these in the host economy as well
- (7) There are CEE doubts that Russian investment may reduce productivity and efficiency, perhaps jeopardizing the acquired company in the long term?<sup>121</sup> Although domestic or foreign investors cannot be expected to operate a factory at a loss in long term, investment and employment obligations can be stipulated in privatization agreements. According to media sources, Lukoil did not meet its first-year investment commitments in the Serbia-based Beopetrol,<sup>122</sup> while investments in Oradea, Romania, by RusAl<sup>123</sup> and in the Croatian Mechel Zeljezara by Mechel failed.<sup>124</sup>

With questions 6 and 7, there is no negative evidence, and with the previous points too, it is advisable not to treat them as general characteristics of Russian corporate behaviour abroad. They reflect only the kind of concerns taken into account by host countries.

<sup>118</sup> Szalai 2002, FigyelőNet 2002a, Origo 2002a, b, 2003, Napi Online 2002b, The Economist 2004a, Cienski 2004, Wisniewski 2004.

<sup>119</sup> FigyelőNet 2005.

<sup>120</sup> Laurynas 2003, The Moscow Times 2005c.

<sup>121</sup> Zashev 2004.

<sup>122</sup> Tőzsdefórum 2005.

<sup>123</sup> Králik 2004.

<sup>124</sup> Mechel 2004, 56.

## 7) PROSPECTS

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Russia's transnationals based on natural resources have managed to improve their financial positions through the big export revenues caused by high world market prices, and this has allowed them to expand in the CEE region and globally. Privatization purchases present good prospects of capital growth,<sup>125</sup> although only minority stakes are offered in some cases.

The focus of Russian investor interest in countries acceding to the EU are Romania and Bulgaria. At the beginning of 2006, there is an opportunity to participate in the privatization of Romania's largest electricity distributor, Electrica Mutenia Sud SA (a 67.5 per cent stake), which serves about one million customers in and around Bucharest.<sup>126</sup> Also to be finalized in Romania by the end of 2006 is the privatization of a majority stake in the main gas producer Romgaz, which according to the Romanian Ministry of Economy and Commerce, Lukoil is keen to buy. Romgaz has an annual production of over 7 billion cu. m.<sup>127</sup>

Lukoil's Bulgarian plans, announced in November 2005, are also imposing: to invest USD 750 million in developing the Neftochim refinery by 2011, and USD 250 million to extend the Lukoil chain of filling stations in Bulgaria.<sup>128</sup>

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<sup>125</sup> According to PricewaterhouseCoopers' Central and Eastern European Mergers and Acquisitions Survey 2003, the 357 disclosed privatization transactions in 2003 were in nine CEE countries: Poland (72), the Czech Republic (8), Slovakia (19), Hungary (7), Slovenia (2), Croatia (11), Romania (57), Bulgaria (43) and Russia (138). In 2004, Bulgaria ranked first with 143 out of 397 deals in the region, followed by Poland with 114, Romania with 53 and Russia with 50, regardless of deal size or industry involved. PwC 2004., 8, PwC 2005, 7-8.

<sup>126</sup> Világgazdaság 2005b, Finance.cz 2005.

<sup>127</sup> Napi Online 2005.

<sup>128</sup> HVG.hu 2005

In the Western Balkans, Serbia is again a target for Lukoil expansion, through even closer cooperation with Naftna Industrija Srbije (NIS). Lukoil and NIS signed in June 2005 a memorandum of intent to create a joint venture, which may guarantee long-term oil supplies of 1.5-4.5 million t per year to NIS refineries.<sup>129</sup> The privatization plan for NIS was approved by the National Assembly of the Republic of Serbia in September 2005. Certain units of the company, including Novi Sad and Pancevo refineries and the network of filling stations, will be merged into a new company, of which no more than 49 per cent will be privatized to any single investor.<sup>130</sup>

Also in the oil and gas sector, efforts are being made for the second stage in privatizing INA of Croatia. MOL acquired 25 per cent plus one share in October 2003, the remaining stake being retained by the Republic of Croatia.<sup>131</sup>

Although the government of Bosnia agreed in October 2005 to sell fuel retailer Energopetrol to a consortium consisting of MOL and INA, these state-owned energy-sector companies will in the near future undergo an accelerated privatization process, for example of Bosanski Brod oil refinery, with a capacity of 4 million t.<sup>132</sup>

Russian outward investing companies also have plans to expand in Macedonia. Lukoil, under a memorandum of cooperation signed with the prime minister in June 2005, Lukoil is to build 40 filling stations and three oil storage bases in Macedonia within 18 months, at a cost of USD 50 million.<sup>133</sup> Itera and the government also signed a cooperation agreement relating to investment projects and improvement of infrastructure in Macedonia's energy market. Itera and

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<sup>129</sup> Lukoil Press Release 2005b.

<sup>130</sup> Népszabadság Online 2005.

<sup>131</sup> Index 2005.

<sup>132</sup> Embassy of Denmark in Sarajevo 2005, FigyelőNet 2003a.

<sup>133</sup> Portfolio.hu 2005b, The Moscow Times 2005i.

Toplifikacija AD of Macedonia established a joint venture in December 2004 to construct a 200 MW gas thermal power plant. Implementation of the 120 million project was to begin in October 2005 and be completed within two years. The new power plant is expected to generate one fifth of the country's annual electricity output.<sup>134</sup>

Of the eight new CEE members of the EU, the Baltic States have seen the strongest increase in IFDI from Russia. Contributing factors include the historical relations, the large Russian minorities and widespread knowledge of Russian, and the geographical position on the Baltic Sea. There was news in the late summer of 2005 that a 38.6 per cent stake in Ventspils Nafta held by the Latvian state was soon to be sold.<sup>135</sup>

Rather than regular increases in Russian FDI in the Visegrád countries, it is expected to grow through occasional larger transactions. Interest in Poland is focused on shares in PKN Orlen, PGNiG and Grupa Lotos. In Hungary, the 11.8 per cent state stake in MOL could also be attractive to Gazprom or Lukoil, but strategic investors are still not being welcomed.

The reluctance of CEE countries to receive Russian investment capital is not expected to ease. The size of the Russian presence can only be estimated by analysing company and media sources in meticulous detail.

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<sup>134</sup> Itera Press Service 2005.

<sup>135</sup> Portfolio.hu 2005a.

Table 1  
End-period stock of Russian FDI, USD, %

	1995	2000	2001	2002	2003	2004
WIR 2003, USD billion	3.02	12.40	14.73	18.02	–	–
WIR 2004, USD billion	3.02	20.14	32.44 <sup>1</sup>	47.68	52.00	–
WIR 2005, FDI Database Update, USD billion	0.35	20.14	32.44	54.61	72.27	81.87 <sup>2</sup>
CBR 2004, USD billion	..	20.14	32.44	54.61	72.27	–
CBR 2005a, <sup>3</sup> USD billion	..	20.14	44.22	62.35	90.87	103.70
Russia/World (WIR 2004), %	0.10	0.34	..	0.66	0.63	–
Russia/World (WIR 2005), %	..	0.33	..	..	..	0.84 <sup>4</sup>
Russia/CEE (WIR 2004), %	48.94	76.79	..	82.27	78.66	–
Russia/CEE (WIR 2005), %	..	76.77	..	..	..	81.74 <sup>5</sup>
World rank (UNCTAD FDI Database)	..	..	..	20	21	–
OFDI stock/GDP (WIR 2004), %	1.0	7.8	..	13.8	11.9	–
World	10.0	19.1	..	22.6	23.0	–
CEE	0.9	3.7	..	6.4	6.0	–
OFDI stock/GDP (WIR 2005), %	..	..	..	..	7.8	14.0
World	..	..	..	..	19.7	27.0

*Notes:* UNCTAD uses CBR data. The CEE countries were defined up to 2004 as the following 19: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Serbia and Montenegro, Slovakia, Slovenia, and Ukraine. For 2005, UNCTAD uses a fresh categorization. The new EU member countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) were reclassified as EU (hence developed economies), and the rest as South-East Europe (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, and Serbia and Montenegro) and the Commonwealth of Independent States (CIS): Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan – formerly in a Central Asia group under developing countries. *WIR 2005*, p. 6) Despite this reclassification, the CEE-related proportions in this paper have been recalculated so as not to break the time series.

<sup>1</sup> UNCTAD FDI database.

<sup>2</sup> Estimates.

<sup>3</sup> Revised on July 12, 2005.

<sup>4</sup> Russia (CBR 2005a)/World (WIR 2005, complemented by CBR 2005a) = 1.06 per cent.

<sup>5</sup> Russia (CBR 2005a)/CEE (WIR 2005, complemented by CBR 2005a) = 85.01 per cent.

Table 2  
FDI flows related to Russia according to the balance of payments  
(USD million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Balance	-405	189	408	1460	1656	1681	1492	1102	-463	216	-72	-1769	2132
Out	1566	1022	281	606	923	3184	1270	2208	3177	2533	3533	9727	10346
In	1161	1211	690	2066	2579	4865	2761	3309	2714	2748	3461	7958	12479

*Notes:* 1993: updated on May 12, 2005; 1994–2000: updated on January 5, 2003; 2001: updated on January 22, 2004; 2002: updated on April 1, 2004; 2003: updated on January 11, 2005; 2004: updated on October 3, 2005.

*Source:* CBR 2005b.



Table 3  
Russian OFDI and net outflow of private sector capital at end of period  
(USD billion, %)

	1993–96 <sup>1</sup>	1993–97 <sup>1</sup>	1996	1997	1998	1999	2000	2001	2002	2003	2004
WIR 2003, USD billion	4.881	..	..	3.184	1.270	2.208	3.177	2.533	3.284	–	–
WIR 2004, USD billion	..	1.027	..	..	1.270	2.208	3.177	2.533	3.533	4.133	–
WIR 2005, FDI Database Update, USD billion	..	..	0.923	3.184	1.270	2.208	3.177	2.533	3.533	9.727	9.601
OFDI/GFCF (WIR 2004), %	1.4	..	..	..	2.9	7.8	7.3	4.4	5.7	5.2	–
World	..	5.5 <sup>2</sup>	..	..	10.7	16.1	17.1	10.8	9.0	8.4	–
CEE	..	0.7 <sup>2</sup>	..	..	1.5	1.8	2.7	2.1	2.6	3.2	–
OFDI/GFCF (WIR 2005), %	..	..	..	..	..	..	..	..	5.7	12.4	9.2
World	..	..	..	..	..	..	..	..	9.7	8.2	8.7
Net outflow of private sector capital (CBR 2005c), USD billion	..	..	23.8	18.2	21.7	20.8	24.8	15.0	8.1	1.9	9.3
Russia/world (WIR04), %	..	..	..	..	0.18	0.20	0.27	0.35	0.59	0.68	–
Russia/world (WIR05), %	..	..	..	..	..	..	..	..	0.54	1.58	1.31 <sup>3</sup>
Russia/CEE (WIR04), %	..	..	..	..	54.65	89.76	78.95	71.43	72.46	58.76	–
Russia/CEE (WIR05), %	..	..	..	..	..	..	..	..	71.55	76.95	76.04 <sup>4</sup>
World rank (UNCTAD FDI Database)	..	..	..	..	..	..	..	..	22	17	–

Notes: GFCF: gross fixed capital formation.

<sup>1</sup> Annual averages.

<sup>2</sup> Annual averages 1992–7.

<sup>3</sup> Russia (CBR 2005b)/World (WIR 2005, complemented by CBR 2005b) =1.42 per cent.

<sup>4</sup> Russia (CBR 2005b)/CEE (WIR 2005, complemented by CBR 2005b) =77.37 per cent.

Table 4  
Main destinations of the Russian FDI outflows, 1995–9

Host country	USD million	%
United States	1544.2	23.05
Germany	1053.9	15.73
Estonia	34.2	0.51
Latvia	94.7	1.41
Lithuania	2.7	0.04
Poland	1112.2	16.60
Czech Republic	11.7	0.17
Slovakia	..	..
Hungary	32.9	0.49
Slovenia	1.6	0.02
Romania	3.2	0.05
Bulgaria	45.4	0.68
Croatia	10.2	0.15
Total	6700.3	100.00

Source: Kalotay 2003, 11–13, and own calculations.

Table 5  
The top 10 destinations for OFDI projects from Russia, 2002–3, %

Host country	Country share
Ukraine (CIS)	13.9
Belarus (CIS)	4.8
China	4.3
Germany	4.3
Uzbekistan (CIS)	4.3
Kazakhstan (CIS)	3.9
Latvia	3.5
Romania	3.5
Egypt	3.0
Vietnam	3.0
Top 10 destinations	48.5

Source: UNCTAD, FDI/TNC database, [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics) and OCO Consulting, LOCOMonitor (for greenfield projects). In: WIR 2004, 74.

Table 6  
Stock of inward foreign direct investment (IFDI)  
from Russia in the CEE countries, Malta and Cyprus

Host country	December 31	IFDI stock from Russia (USD million)	Russia's share in total IFDI stock (%)	Russia's rank among investors	IFDI stock per capita (usd)
Estonia	2004	197.07	1.96	9	147.85
	2003	101.24	1.45	11	75.95
	2001	43.71	1.38	9	32.79
Latvia	2003	171.20	5.28	9	74.23
	2001	131	5.3	7	55
Lithuania	2003	288.30	5.8	8	79.91
	2001	48.00	1.6	13	13.30
Poland	2004	409.1	0.48	20	10.59
	2003	1291.90	1.78	11	33.45
	2001	1286	2.3	10	33.29
Czech Republic	2003	30.7	0.07	29	3.00
	2001	18.0	0.08	29	1.76
Slovakia	2003 (June 30)	< 10.0	< 0.10	..	..
	2001 (Sept 30)	9	1.6	..	2
Hungary <sup>1</sup>	2003	74.1	0.22	21	7.39
	2001	64.1	0.25	19	6.39
Slovenia <sup>1</sup>	2003	-4.70	-	-	-
	2001	-1.50	-	-	-
Romania	2001 (Sept 30)	4	0.05	..	0.2
Bulgaria <sup>1</sup>	2004	42.6	0.60	17	5.72
	2003	49.4	1.00	15	6.63
	2001 <sup>2</sup>	37.9 (205)	1.14 (4.6)	15 (8)	5.08 (27)
Cyprus	1997-2002 (flow)	284.69	-	-	-
Malta	2002	0.00	0.00	..	0

Notes:

<sup>1</sup> million.

<sup>2</sup> Liuhto and Jumpponen 2003 figures are in brackets. The Central Bank of Bulgaria calculated IFDI stock from Russia at USD 144.5 million at end 1999.

Source: Central banks (Bulgaria, Hungary, Slovenia, Estonia, Czech Republic), Vahtra and Liuhto 2004a and 2004b, Liuhto and Jumpponen 2003 (Cyprus, Slovakia, Lithuania, Latvia), PAIIZ (Poland), CIA World Fact Book (population figures), own calculations.

Table 7  
Cross-border M&A deals by Russian firms announced by top five CEE destination countries, 2002 and 2003

Rank by deal size	Target firm	Target country	Stake (%)	Buyer	Seller	Estimated deal size (USD m'n)	Industry	Date announced
2002								
2003								
2	Beopetrol	Serbia	79.5	Lukoil	Government	140	Oil	Sept.
3	MV Properties	Romania	100	Lukoil	Private	121	Oil	Sept.
5	Lietuvos Dujos	Lithuania	34	Gazprom	Government	32	Gas	Sept.
2002								
3	Mazeikiu Nafta	Lithuania	53.7	yukos	Williams Int'l	235	Oil	August
5	Transpetrol	Slovakia	49.0	yukos	Government	74	Oil	April

Source: Ernst&Young 2004.

Table 8  
Top 10 non-financial TNCs based in Russia,  
ranked by foreign assets, excluding shipping companies<sup>1</sup>

Company	Industry	Main actors and related millionaires	Estimated foreign assets, USD billion
Natural resource based			
Gazprom	Oil and gas	State, Alexei Miller, Alexander Ryazanov, Andrei Kruglov, (earlier: <i>Rem Vyakhirev, Vyacheslav Sheremet, Alexander Pushkin</i> )	>10
Lukoil	Oil and gas	Vagit Alekperov, Leonid Fedun, Ravil Maganov, (earlier: Ralif Safin)	8-9
RusAl	Aluminium	Oleg Deripaska, (earlier: Roman Abramovich)	2.5–3
Norilsk Nickel	Metals	Mikhail Prokhorov, Vladimir Potanin	2
Itera	Oil and gas	Igor Makarov	1–1.5
yukos	Oil and gas	Changing course <sup>2</sup> Steven Theede, Bruce Misamor, Yury Beilin	1
Rosneft	Oil and gas	State, Sergey Bogdanchikov	0.5
Alrosa	Diamond	State, regional government, Vladimir Kalitin, (earlier: <i>Vyacheslav Shityrov</i> )	0.5
Severstal	Steel	Alexei Mordashov	0.5
Non-natural resource based			
OMZ	Heavy engineering	Gazprombank, (Kakha Bendukidze), Mikhail Kosolapov	0.5–1

Notes: Names of Russia's 100 richest people in 2004 appear in italics.

<sup>1</sup> See Novoship with USD 1107 million in 2003.

<sup>2</sup> YUKOS millionaires: Mikhail Khodorkovsky, Leonid Nevzlin, Mikhail Brudno, Vladimir Dubov, Platon Lebedev, Vasily Shakhnovsky, Sergei Muravlenko, Alexei Golubovich, Yury Golubev, Viktor Ivanenko and Viktor Kazakov.

Source: Vahtra and Liuhto 2004a and 2004b, WIR 2004, *Forbes* (Russia's 100 Richest 2004), *Kommer-sant* 2004, and company websites.

Table 9  
Russian firms among the top 25 non-financial TNCs based  
in CEE countries, ranked by foreign assets

Corporation	Ranking by foreign assets				TNI (%)				Ranking by TNI			
	'02	'01	'00	'99	'02	'01	'00	'99	'02	'01	'00	'99
Lukoil	1 (5354.0)	1	1	1	33.8	35.0	34.7	29.8	11	10	11	15
Novoship	2 (962.9)	2	2	–	55.5	55.5	53.7	–	4	4	6	–
Norilsk Nickel	4 (502.0)	–	–	–	27.2	–	–	–	13	13	–	–
Primorsk Shipping	5 (331.8)	6	4	5	71.3	63.2	59.4	59.4	1	2	5	6
Far Eastern Shipping <sup>1</sup>	10 (123.0)	9	7	7	22.8	22.8	38.8	38.8	18	15	10	8

Notes: The transnationality index (TNI) is calculated as an average of three ratios: foreign assets/total assets, foreign sales/total sales and foreign employment/total employment. Foreign assets (USD millions) appear in brackets.

<sup>1</sup> 2001 data.

Source: WIR 2004, 317, WIR 2003, 191, WIR 2002, 112, WIR 2001, 115.

Table 10  
Top 10 non-financial TNCs from SE Europe and  
the CIS, ranked by foreign assets in 2003

Ranking by		Corporation	Assets (USD m'n)		Sales (USD m'n)		Employment <sup>3</sup>		TNI (%)
Foreign assets	TNI		Foreign	Total	Foreign	Total	Foreign	Total	
1	4	Lukoil	7247	26574	16260	22118	13929 <sup>1</sup>	150000	36.7
2	10	Norilsk Nickel	1518	5916	1518	11253	1569	96520	13.6
3	3	Novoship	1107	1213	317	395	65	4782	57.6
4	2	Pliva d.d. (CR)	925	1629	908	1078	3500	6780	64.2
5	5	RusAl	691	6085	3660	4509	5490	63458	33.7
6	1	Primorsk Shipping	382 <sup>2</sup>	442	104 <sup>2</sup>	134	1305 <sup>2</sup>	2611 <sup>2</sup>	71.3
7	7	Mechel	121	1835	1048	2050	12578	84982	24.2
8	6	Podravka Group (CR)	104	571	210	480	1241	7376	26.3
9	8	Far Eastern Shipping	52 <sup>2</sup>	160	57 <sup>2</sup>	180	166 <sup>2</sup>	4000	22.8
10	9	Alrosa	46	4630	886	1955	8 <sup>2</sup>	46998	15.4

Notes: CR: Croatia.

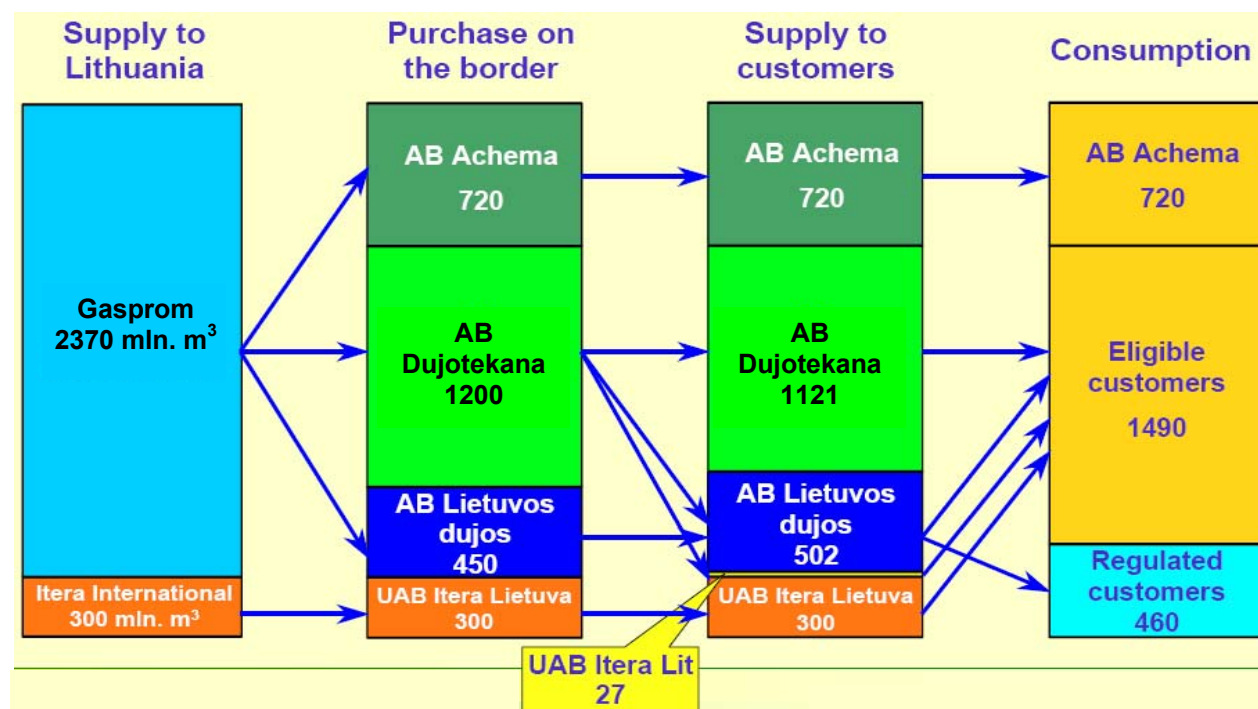
<sup>1</sup> 2001 data.

<sup>2</sup> 2002 data.

<sup>3</sup> Number of employees.

Source: WIR 2005, 272.

Figure 1  
Natural gas supply and consumption  
(2002)



Source: Gagilas 2002.

Table 11  
Major gas-related investments in CEE countries  
by Russians and dependence on the Russian natural gas

Host economy	Investor	Company	Stake (%)	Activity	I (%)	II (%)	III (%)	
Estonia	Gazprom	Eesti Gaas AS	37.02	Marketing of natural gas, development of gas transportation networks	100	..	0.52 (0.51)	
	Itera		9.75					
Latvia	Gazprom	Latvijas Gaze	34	Marketing of natural gas, development and modernization of natural gas and service industries		100.00 (..)	1.23 (1.05)	
	Itera	Itera Latvija	16					
Lithuania	Gazprom	AB Lietuvos Dujos	37.1	Import, marketing of natural gas, development of gas transportation networks		100.00 (..)	1.62 (1.72)	
		UAB Stella-Vitae	30					Oil, gas and gas refinery products trading
Poland	Gazprom	EuRoPol Gaz SA	48	Construction, ownership and operation of Polish section of Yamal-Europe gas pipeline, gas transportation		99	86.81 (89.43)	3.50 (4.30)
		Gas Trading SA	16					
Czech R.	Gazprom	Gas-Invest SA	37.5	Gas marketing, distribution and general trading activity		82	73.27 (73.07)	3.68 (4.25)
Slovakia	Gazprom	Slovrusgaz	50	Gas transportation and marketing, general trading business		100	100.00 (100.00)	2.72 (4.04)
Hungary	Gazprom	Panrusgáz Rt.	40	Gas marketing and distribution	81	85.11 (85.53)	5.12 (6.05)	
Slovenia	..	..	..	..	62	50.91 (60.00)	0.11 (0.39)	
Romania	Gazprom <sup>1</sup>	Wirom Gas SA	26	Gas import	100	77.97 (91.38)	2.29 (2.98)	
		WIEE Romania SRL	50	Gas distribution				
Bulgaria	Gazprom	Overgas Inc. AD	50	Gas marketing (wholesale/retail), construction and operation of gas transportation network	94	100.00 (100.00)	1.58 (1.66)	
		Topenergy	100					Gas trading and transportation
Croatia	..	..	..	..	..	94.59 (100.00)	0.19 (0.36)	
Serbia–M.	Gazprom	Yugorosgaz	50	Gas trading and transportation	..	100.00 (..)	1.24 (1.09)	
Bosnia–H.	..	..	..	..	..	..	0.18 (0.12)	

Notes: <sup>1</sup> Through ZGG GmbH.

I: Dependence on Russian natural gas imports in 2000. Baltic States: The Economist 2004b; others: Liuhto 2002, 15.

II: Russia's share in natural gas imports by pipeline in 2004 (2003). Flows are on a contractual basis and may not correspond to physical gas flows. (Own calculations based on BP 2004 and 2005.) Sometimes Russia's share is bigger than indicated because Russian-origin or re-exported gas goes to CEE countries.

III: CEE share in Russia's natural gas export (quantity data) 2004 (2003). Own calculations based on Gostankom 2004, 85; Gostankom 2005, 75.

Source: PAIIZ (Polish Information and Foreign Investment Agency), Gazprom 2005a, b; AK&M Online News 2005, Energiainfo.hu (various articles); The Moscow Times 2005g; company websites.

Table 12  
Major CEE oil-related investments by Russians  
and national dependence on Russian crude oil

Host economy	Investor	Company	Stake (%)	Activity	I (%)	II (%)	III (%)
Estonia	Lukoil <sup>1</sup>	Lukoil Eesti	..	Fuel trading.	90	0.58 (0.01)	5.18
Latvia	Transnefteprodukt	LatRosTrans SIA	34	Ownership and operation of oil pipeline, transportation of light oil products through the territory.		1.01 (0.78)	0.60
	Lukoil <sup>1</sup>	Lukoil Baltija R	..	Oil depots, fuel filling stations, LPG marketing, wholesale and retail.		3.42 (3.61)	0.56
Lithuania	Lukoil <sup>1</sup>	yukos	Mazeikiu Nafta	53.7			
		Lukoil Baltija UAB	..	Holding co. of Lukoil Baltija group.			
		Mažeiki auto-transporto kis UAB	..	Transportation of fuels to Lukoil and other petrol stations.			
		Lukoil Baltija Servisas UAB	..	Operation of petrol stations.			
		Lukoil K dainiai UAB	..	Exploitation of the fuel storage facility, wholesale and storage of oil products.			
Poland	Lukoil	Lukoil Polska	100	LPG station network, wholesale.	100	8.05 (7.16)	0.13
Czech R.	..				65	1.88 (1.86)	0.00
Slovakia	yukos	Transpetrol AS	49	Operation of pipeline system, transportation and storage of oil, telecommunication activities.	100	2.66 (2.39)	0.02
Hungary	Lukoil	Lukoil Down-stream Hungary Kft.	100	Wholesale and retail trade of fuels, filling stations.	100	2.54 (2.26)	0.45
Slovenia	..				0	–	0.17
Romania	Lukoil	Petrotel-Lukoil	94.7	Refinery, filling stations, tank farms.	55	0.96 (1.67)	0.08
		MV Properties SRL	100	Fuel stations and fuel storage facilities.			
Bulgaria	Lukoil	Lukoil Neftochim Bourgas AD	93.16	Oil refinery, petrochemical complex.	5	0.23 (1.01)	0.05
		Lukoil Bulgaria	100	Export and trade in fuels, petrochemicals; oil terminals, filling and gas stations.			
Croatia	..				..	0.63 (0.88)	0.01
Serbia–M.	Lukoil	Beopetrol	79.53	Fuel retail, filling stations.	..	0.04 (0.18)	0.05
Bosnia–H.	..				..	0.06 (–)	–

Notes: <sup>1</sup> Lukoil Baltija Group.

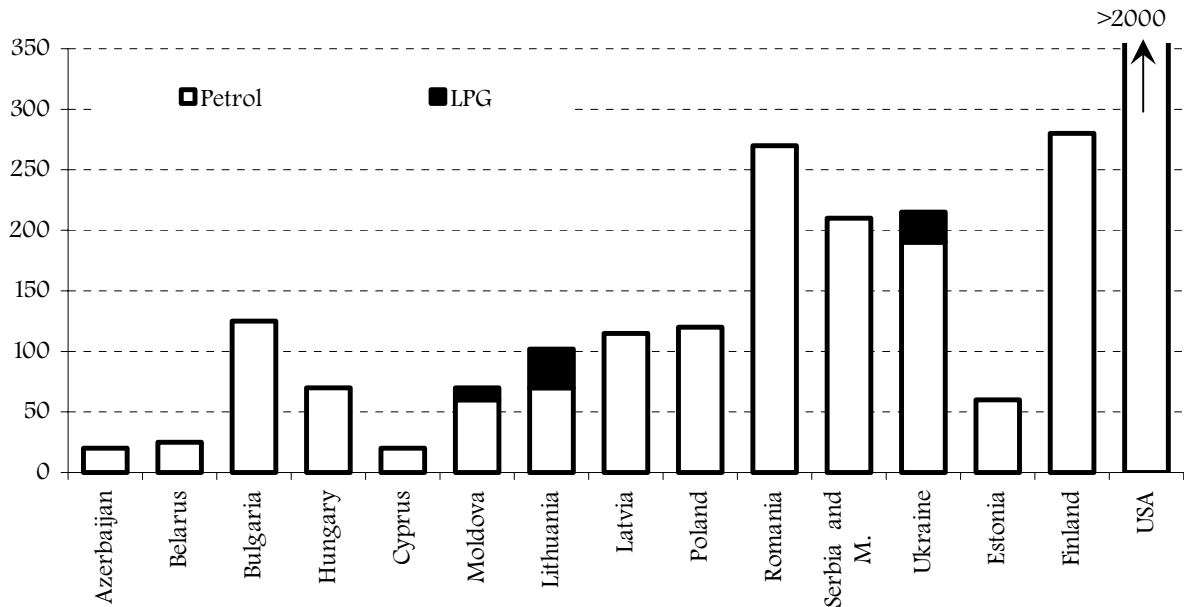
I: Dependence on Russian crude oil imports in 2000. Baltic States: The Economist 2004b; others: Liuhto 2002, 15.

II: CEE share in Russia's crude oil export (quantity data) in 2003 (2004). Own calculations based on Gostamkom 2004, 82 and Gostamkom 2005, 72–3.

III: CEE share in Russia's oil products export (quantity data) in 2003. Own calculations based on Gostamkom 2004 82–3.

Source: PAIiIZ, Ventpils Nafta (web), Randburg.com (web), Energiainfo.hu (various articles), company websites.

Figure 2  
Lukoil petrol and LPG stations in selected countries



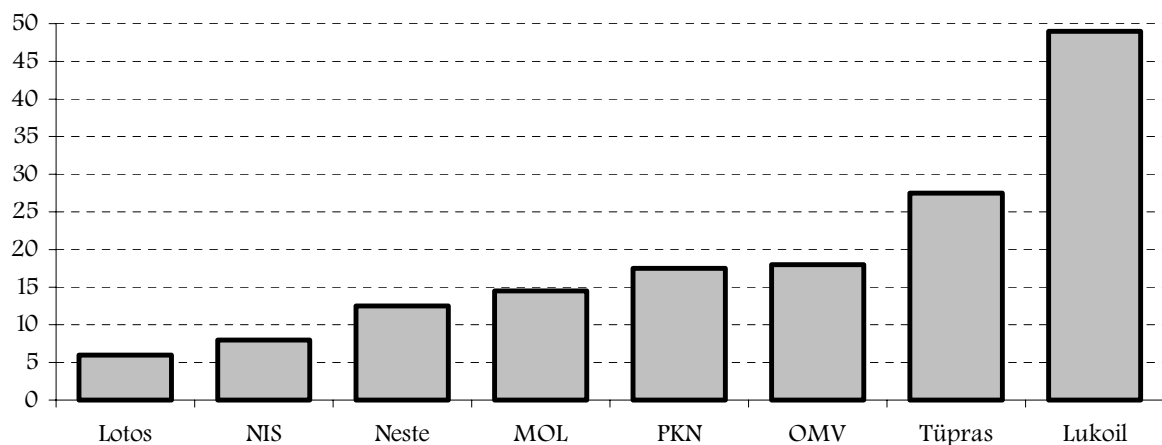
Source: Barát 2005.

Table 13  
EU-15 imports of crude petroleum oils (SITC 333)  
and petroleum products (SITC 334 + 335), 1999-2003,  
(€ million, %)

	1999		2000		2001		2002		2003	
	mn	%	mn	%	mn	%	mn	%	mn	%
Crude oil	7361	14.4	14463	14.1	15590	17.0	17647	20.3	19753	21.8
Oil products	2932	31.5	5609	31.1	5850	32.5	6075	31.7	6702	34.3

Sources: External and intra-European Union trade. Monthly statistics. Eurostat, European Commission 2000/12, 76; 2001/12, 76; 2002/12, 76; 2003/12, 79; 2004/7, 79.

Figure 3  
Refining capacity of oil companies in the region, million t per year



Source: Portfolio.hu (2005d).

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## APPENDICES

### Appendix 1 M & A purchases by Russia

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of deals	6	3	4	3	14	3	8	11	21	28	27	40	28
USD million	18	6	245	–	242	2	301	52	225	371	606	8763	949

*Notes:* According to UNCTAD definitions, this is recorded at the time of deal closure, but M & A values are not necessarily paid out in a single year. The data cover deals involving acquisition of an equity stake of more than 10 per cent. They include purchases via domestic and international capital markets, which should not be considered as FDI flows. Moreover, M & A data are expressed as the total transaction amount of particular deals and not as differences between gross acquisitions and divestment abroad by firms from a particular country (here Russia). FDI flows are recorded on a net basis in a particular year. (See WIR 2005, pp. 301–2.)

*Source:* UNCTAD, cross-border M&A database.

### Appendix 2 Other major investments by Russians in CEE countries

Host economy	Investor	Company	Stake (per cent)	Activity
Estonia	..	Nitrofert	..	Fertilizers, processing natural gas into ammonia and prilled urea
	KuzbassRazrezUgol	AS Coal Terminal	..	Coal terminal in Muuga
	Uralvagonzavod	UVZ & AVR	..	Rail carriage assembly plant in Ahtme
	Severstal (Severstaltrans)	Estonian Oil Service	70	Oil terminal
		Spacecom Ltd.	70	Rail freight carrier
		Lokomotive	84.5	Locomotive repair plant
AS Trendgate	..	Oil terminal		
Latvia	Moscow Municipal Bank/Bank of Moscow	Latvijas Biznesa Banka (Latvian Businessbank)	99.87	Banking
	Conversbank	Latvijas Krajbanka	83.01	Banking
Lithuania	Gazprom	UAB Kauno Termofikacijos Elektrin	99	Thermal power supply
	EuroChem	AB Lifosa (Kedainiai)	91.15	Production of phosphate fertilizer
	Lukoil	Lamantas UAB	..	Management of Ventus and Kapsai radio stations
	Mechel	UAB Mechel Nemunas	100	Metallurgical plant (wire, nails, nets)
	Conversbank	Bankas Snoras	49.89	Banking
Poland	Gazprom	Polgaz Telekom SA	32	Telecommunications
	Bagdasarian	nie ka SA (wiebodzice)	100	Manufacture of sugar confectionery
Czech R.	Ilim Pulp	Plzenska Papirna	..	Paper plant
	OMZ	Skoda Jaderne Strojirenstvi	100	Production of equipment for nuclear power plants
		Skoda Hute	100	Production of speciality steels
		Skoda Kovárny	100	
Evrazholding <sup>1</sup>	Vitkovice Steel	98.96	Plate maker	

Host economy	Investor	Company	Stake (per cent)	Activity
Hungary	Firthlioni Limited (Kafijat Ltd.)	General Banking and Trust Co. Ltd.	100	Banking
		DKG-East Oil & Gas Equipment Manufacturing Co.	18.1	Oil and gas equipment
		Binimex Ltd.	100	Real estate utilization
		Antenna Hungária Plc.	15.85	Broadcaster
		BorsodChem	10.02	Producing plastic feedstocks and isocyanate
Romania <sup>2</sup>	TMK (Pipe Metallurgical Company) <sup>3</sup>	ArtRom Slatina	Control	Pipe producer
		Combinatul Siderurgic Resita (Resita Steel Works)	90.54	Production of steel and rolled steel products (billets for pipes)
	RusAl	Centrade SA (Alor Oradea)	..	Alumina refinery
	Mechel <sup>4</sup>	S.C. Industria Sarmei S.A.	81	Semi-finished steel products, steel long products (rolled products)
		COST (Combinatul de Oteluri Speciale Targoviste) SA	81	Carbon and speciality steel long products (rolled products), forgings
Serbia–M.	Basic Element (RusAl)	Kombinat Aluminijuma Podgorica SA (KAP)	65.44	Aluminium processing plant, forging plant, rope plant
	BK Trade	Mobtel	51	Mobile telephone operator

## Notes:

<sup>1</sup> On September 12, 2005, the Czech Anti-Monopoly Office approved the sale of the Czech Republic's stake in Vitkovice Steel. The Moscow Times 2005k.

<sup>2</sup> During 2001–2, OMZ acquired a 66 per cent interest in S.C. UPET SA, a Targoviste-based facility specializing in manufacturing of mobile rings, components for offshore rigs and metal valves. In May 2004, the company (as part of the oil and gas equipment and shipbuilding business segments) was sold to certain members of the OMZ's management. OMZ 2005, 22 and 43.

<sup>3</sup> Through Germany-based Sinara Handel GmbH, a trading company of TMK.

<sup>4</sup> Through Swiss-based Mechel Trading AG. ARIS (web).

*Source:* Besides those mentioned: PAIIZ, Alexander's Gas and Oil Connections 2003b, Zashev 2004, Baltic Rim Economies 2005, Kornienko 2004, Vahtra and Liuhto 2004a and 2004b, The Moscow Times 2004a and 2005d, PrimOnline 2005, Králik 2004, Mechel (web), Mechel 2004, Forum Invest 2003, Presidential Decision 2004, and company websites.