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| Title | POLITICAL RISKS OF FOREIGN DIRECT INVESTMENT IN THE RUSSIAN GAS INDUSTRY – The Shtokman Gas Field Project in the Arctic Ocean | | |
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Abstract

Foreign investments in the natural gas industry are restricted in Russia due to the state's desire to maintain control over the strategic resources. However, Russia lacks the technological expertise and experience required for the development of the new Arctic offshore gas resources, and Russia is inviting foreign investors to the gas industry. For instance, the vast Shtokman field in the Barents Sea is to be developed by the Russian Gazprom, the French Total and the Norwegian Statoil.

The objective of this research was to identify, in the light of the Shtokman project, the political risks that foreign investors may face in the Russian gas industry. The research objective was further divided into the identification of the sources and effects of political risk. The theoretical framework of the research was created based on several models about political risk, and the analysis of the Shtokman field project was based on this framework. The empirical data of the study was gathered by interviewing eight experts from Finland, France, Norway and Russia.

According to the findings of the study, changes in the Russian top leadership, the development of Russia's international relations, and the future of the global gas market were seen to be among the main factors affecting the level of political risk in the Shtokman project. The foreign investor's bargaining power against Gazprom and the relations between the investor's home country and Russia are significant factors as well. Moreover, project-specific issues, such as the initial contractual relationship, affect the riskiness of the project.

When it comes to the potential political risks, nationalisation and forced contract renegotiation were concluded to be rather unlikely scenarios as in this case, Russia remains in control of the field and the foreign investors are only involved in the development of the field. However, these risks still exist, and the situation may change rapidly with the previously presented risk factors. Operational risks, such as price controls and changes in legislation, are more likely to occur than ownership risks, but are not likely to result in such severe consequences.

The most important question at the moment is the foreign companies' compensation for developing the Shtokman field, as after 25 years since the production has started, the ownership of the field's infrastructure will be transferred to Gazprom. Moreover, the decision to implement the field has not been made yet, and the current estimates for the production to start in 2016–2017 seem to be unrealistic. The project's future depends on the development of the Yamal gas field, on the future of the global gas business, and on the partners' cooperation in the Shtokman project.

The factors identified in the study affect the political risk in the Shtokman project, and through these factors one can assess political risk also in other corresponding projects in the Russian gas industry.

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| Key words | Political risk, foreign direct investment, Russia, gas, Arctic, Shtokman |
| Further information | |