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Abstract

The purpose of this research is to identify the determinants of expropriation of transnational corporations (TNCs) in the Russian energy industry. The main research problem was approached through three research questions:

- 1) What were the key factors that contributed to the expropriation of the Sakhalin Energy Investment Company (SEIC) by the Russian Government?
- 2) What are the implications of the Sakhalin-2 case on the future of foreign investments in the Russian energy sector?
- 3) What factors determine the TNC bargaining power vis-à-vis the host government in developing and emerging economies?

The theoretical framework of the study combines the resource-based view (RBV) of a firm with the institutional theory approach. The multi-disciplinary framework allows simultaneous analysis of firm- and host country-specific determinants of expropriation.

A single case study approach was used, presenting a case study on the single largest foreign direct investment (FDI) venture in Russia, the Sakhalin-2 project. The single case study approach was considered feasible due to the radical actions taken against the foreign investing consortia by the Russian Government. The Sakhalin-2 case thus far serves as a unique case of direct expropriation in Russia. The data were collected through theme interviews with industry experts and supplemented by an extensive set of secondary data.

The research results indicate that expropriation of foreign companies in the Russian energy sector is determined by a complex combination of consortium-specific, legal, technological, and political factors. Both the firm-specific resources and institutional factors were found to be important determinants of expropriation. The relatively weak firm-specific attributes and competitive position of the SEIC coupled with the company's controversial relations with the Russian Government, and failure to meet the initial isomorphic requirements by including a domestic partner in the SEIC made the consortium vulnerable to host government expropriation. In addition, the cost overruns and substantially delayed profits for the Russian Government played against the foreign consortium. The research results clearly indicate changing conditions for foreign energy companies in Russia. The recent legislative acts introduce further restrictions on foreign investments in strategic sectors of the Russian economy, but bring hope of increased stability in the investment regime.

Key words	Expropriation, transnational corporations, foreign direct investment, host government, energy
Further information	

