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Some recommendations for the policy-makers

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CENTRUM BALTICUM

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Prof. Dr. (Econ.) Alexey V. Kuznetsov is a deputy director of the Primakov National Research Institute of World Economy and International Relations of the Russian Academy of Sciences (Russia), professor of MGIMO-University (Russia), corresponding member of the Russian Academy of Sciences and the editor-in-chief of the "Outlines of Global Transformations" peer-reviewed open-access journal from the Russian Science Citation Index (RSCI) database. The author of several books and more than 250 articles on FDI, Russian foreign economic relations, European and Eurasian integration and some other issues in the field of world economy.

E-mail: kuznetsov@imemo.ru

Summary

The article analyses dynamics of Russian outward foreign direct investment (OFDI), especially in nine countries of the Baltic Sea region. Special attention is paid to the current period of the Russian investment expansion which began in 2014. After the drop in oil prices, *coup d'etat* in Ukraine and the start of "sanctions wars" with Western countries Russian OFDI is seriously influenced by economic stagnation in Russia, several geopolitical factors and changing strategies of gradually maturing Russian MNEs. Examples of many Russian MNEs in the Baltic Sea region show different attitude to Russian investors in various countries of this region. Infrastructure sector has become the most politically sensitive field of Russian OFDI. However, it is not correct to investigate new trends in Russian OFDI in the region only by estimates of Russophobers' influence. Indeed, there are several significant Russian "migrant" MNEs in the Baltic Sea region (e.g. SPI Group of Yuri Shefler, Ritzio International of Oleg Boyko and Food Union of Andrey Beskhmelnitsky) which moved their headquarters to the EU due to various problems of development in the Russian home market. In general, the structure of the Russian OFDI stock in the Baltic Sea region is really diversified. In comparison to the post-Soviet area which is another neighbouring region for Russia some industries in the Baltic Sea region are not popular with Russian investors yet. It can be explained both by economic factors (e.g. high level of competition in banking or telecommunications) and by investment protectionism (especially in post-socialist countries). It should be stressed that only the increase in mutual trust can help positive changes in dynamics and structure of Russian OFDI in countries of the Baltic Sea region. It is also necessary to establish an efficient OFDI insurance system in Russia which can protect Russian MNEs against political risks in Western countries.

Keywords

OFDI, Russian MNEs, Baltic Sea region, geographical and industrial structure of FDI, European Union, investment protectionism, trans-shipping FDI, investments in infrastructure

1. Introduction

After 2013 we can see a new period of Russian investment expansion abroad. Russian outward foreign direct investments (OFDI) are seriously influenced by economic stagnation in Russia, "sanctions wars" with Western countries and changing strategies of gradually maturing Russian multinational enterprises (MNEs). The real boom of Russian OFDI in the 2000s was changed by modest dynamics of FDI outflows. Temporary significant decline in the Russian OFDI stock could be seen in 2014-2015.

Although the share of the Baltic Sea region in the total Russian OFDI stock is less than 5%, a special investigation of changes in the character of Russian investment expansion abroad in this region is useful due to several considerations. Firstly, we can mention a geopolitical factor, especially in connection with Gazprom's FDI in infrastructure projects as well as "sanctions wars" between Russia and the EU. Secondly, it is interesting to look at the changing role of neighbourhood effect in FDI geography because the Russian Federation has begun realisation of its economic "shift to the East". Thirdly, it is necessary to study consequences of *de facto* official anti-Russian policies of some countries which indeed dominate in the Baltic Sea region. In such circumstances remaining constructive political forces and business structures need efficient recommendations for improvement of investment relations between Russia and neighbouring countries of the Baltic Sea region. At the moment only some aspects were investigated (e.g. Liuhto et al. 2016).

2. Statistics on Russian OFDI

In the 2000s, Russia increased its role in global FDI outflows significantly. The country was only in the 28th place in the world in terms of OFDI stocks and in the 26th place in terms of FDI outflows in 2000. After seven years Russia reached the 13th and the 15th places correspondingly. Its share exceeded 1% in global OFDI stocks and 2% in current FDI outflows (see Table 1). During the global economic crisis there was some decline in Russian OFDI volumes, although partially only as a result of new estimates of investment stocks due to devaluation of Russian Rouble (see also Kalotay 2015). In 2013 Russia reached pre-crisis level again. Moreover, the county climbed into the 6th place in the world in terms of FDI outflows with record share of 5.12%.

The character of those periods of Russian investment expansion abroad was explained in detail in many publications (e.g. see Liuhto & Majuri 2014; Kuznetsov 2016). In 2014 the new period for Russian OFDI began because of several external shocks. Firstly, a significant drop of oil prices and consequent financial problems of many Russian resource-based MNEs led to decrease in Russian FDI activities. Moreover, Russian businessmen usually became more prudent with their investment plans abroad. Secondly, *coup d'etat* in Ukraine and further events, including re-unification of Crimea with the Russian Federation and "sanctions wars", led to stagnation of Russian OFDI in many countries. Sometimes political pressure in the United States, some the EU member states and Ukraine (including possible and even real investment protectionism against private MNEs) resulted in exodus of some Russian companies from these countries. Not only some middle-sized Russian MNEs but also Lukoil and Severstal became examples of such processes. Thirdly, the establishment of the Eurasian Economic Union (EAEU), further development of its free trade negotiations with third states and Russian efforts to intensify ties with Asian, African and Latin American countries opened new opportunities for Russian MNEs. As a result, the worst year for Russian investment expansion abroad was 2015. Afterwards we can see a recovery, but the Russian position in 2017 is more modest than in 2013 (see Table 1). Moreover, many changes take place on the level of countries which will be demonstrated here by the example of the Baltic Sea region.

Table 1. Russian OFDI dynamics

Indicator	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Russian OFDI stock, $ billion, end of year	19.2	363.5	197.3	288.3	336.4	315.7	332.8	385.3	329.8	282.7	334.3	382.3
Russian share in global OFDI stock, %	0.26	1.95	1.23	1.50	1.60	1.47	1.46	1.54	1.31	1.05	1.25	1.24
Russian place in the world by OFDI stock	28th	13th	17th	18th	18th	19th	19th	19th	20th	22nd	20th	19th
Russian FDI out-flows, $ billion	3.2	43.8	56.7	34.4	41.1	48.6	28.4	70.7	64.2	27.1	27.0	36.0
Russian share in global FDI out-flows, %	0.27	2.02	3.33	3.13	2.99	3.11	2.08	5.12	5.09	1.67	1.83	2.52
Russian place in the world by FDI outflows	26th	15th	10th	9th	11th	11th	15th	6th	7th	18th	16th	12th

Source: World Investment Report 2018, annex table 2 & annex table 4 (http://www.unctad.org).

It is a well-known fact that a significant role of offshore zones and other trans-shipping destinations, such as Cyprus, the Netherlands or British Virgin Islands, distorts the real picture of Russian OFDI geography in official statistics (e.g. see Bulatov 2017). Moreover, the same indicators in mirror statistics of the Central Bank of the Russian Federation (Bank of Russia) and central banks (or some other national statistical bodies) of Russian FDI recipients can seriously mismatch. It can be easily seen from the IMF's Coordinated Direct Investment Survey (compare in Table 2 its inward FDI statistics for 2016 with statistics from the Bank of Russia which is the same as IMF's outward FDI statistics in that survey). It is also possible to track real ways of Russian OFDI by investigation of companies' reports and information in media. The only large-scale attempt was made by our team in IMEMO in 2011-2017 when we calculated volumes of Russian OFDI stocks in all countries of Europe and Asia (Kuznetsov et al. 2017). The project under financial support of the Eurasian Development Bank covered all projects with FDI stock in excess of $3 million, and a number of projects with smaller investments (particularly in low capital intensity industries). In general, this threshold made it possible to keep track of Russian OFDI geography but with the notable exception of real estate (which was crucial for some countries, especially Latvia and Finland in the Baltic Sea region – see Table 2).

As a result, we should use several sources of FDI statistics simultaneously and first of all look at general dynamics and main proportions. Main conclusions are the following:

- Germany is the main recipient of Russian OFDI in the Baltic Sea region while the Russian share is still higher in neighbouring Finland and three Baltic States, especially in Latvia (despite all its anti-Russian rhetoric at the political level);
- Sweden is very unattractive for Russian MNEs and there are evident problems with investment climate in Poland from the Russian point of view;
- Finland and Norway became more attractive for Russian investors during the analysing period while Lithuania and Latvia demonstrate opposite tendencies; and
- Denmark, Norway and Poland are good examples of trans-shipping FDI processes, however, frankly speaking, official statistics and even IMEMO's estimates cannot prove unpopularity of such practices in the case of Germany, Finland or three Baltic States.

Table 2. Russian OFDI stocks in countries of the Baltic Sea region

Country	Russian OFDI stock, $ million, end of year (Bank of Russia statistics)					Russian share in IFDI stock of the country, %	*IMF estimate of OFDI stock, $ million*	*IMEMO estimate of OFDI stock, $ million*
	2013	2014	2015	2016	2017	2017	*2016*	*2016*
Germany	9,607	9,608	9,308	7,560	8,394	0.90	4,597	11,692
Finland	1,199	1,150	2,479	2,923	3,039	3.53	1,039	1,577
Latvia	2,821	1,498	1,398	1,361	1,546	8.97	1,387	881
Denmark	1,293	1,070	1,063	1,028	1,205	1.12	107	129
Poland	620	503	535	452	551	0.24	286	1,144
Norway	208	319	470	529	506	0.34	197	1,613
Estonia	369	418	425	348	334	1.44	723	600
Lithuania	1,404	308	296	303	315	1.79	288	195
Sweden	73	108	136	167	183	0.05	184	162
Baltic Sea region, total	17,594	14,982	16,110	14,671	16,073	0.85*	8,808	17,993
World, total	385,321	329,818	282,651	334,275	382,278	1.21	130,863	…

* weighted average (i.e. Russian share in total IFDI stock of 9 countries of the Baltic Sea region)

IFDI = Inward Foreign Direct Investment

IMEMO = Institute of World Economy and International Relations, Moscow, Russia

IMF = International Monetary Fund

OFDI = Outward Foreign Direct Investment

Sources: Bank of Russia statistics on FDI (http://www.cbr.ru); World Investment Report 2018, annex table 3 (http://www.unctad.org); Coordinated Direct Investment Survey, table 6-i (http://data.imf.org); Unpublished database of the IMEMO-EDB Centre for Integration Studies project (its team-leader is Prof. A. Kuznetsov).

In general, the Russian share in the Baltic Sea region is less than the Russian share in the global IFDI stock (see Table 2). However, main explanations are connected with Germany (due to the size of its economy) and they relate mainly to competition aspects and not to investment protectionism or some other political considerations. It is also should be stressed that, strictly speaking, many Russian investment projects in Germany are not connected with the Baltic Sea region (e.g. Russian OFDI in Bavaria). More detailed analysis can be made only with the help of information from companies.

3. Recent trends in Russian OFDI in the Baltic Sea region

The second largest Russian MNE Gazprom remains the leading Russian investor in the Baltic Sea region. Its main project in the Baltic Sea region is the Nord Stream pipeline although the company Nord Stream AG is registered officially in Swiss tax haven Zug. According to financial reports of Gazprom, its investment stock in Nord Stream has remained rather stable (e.g. $1,340 million at the end of 2013 and $1,377 million at the end of 2017). The share of Gazprom is 51% while other partners are from three EU member states including Germany. The construction of the Nord Stream 1 pipeline was finished in 2012 and its total price exceeded €7 billion. There are also plans to broaden this route of gas transportation from Russia into the EU because it is the only way for Russia to avoid a possible politically motivated blockade of Russian gas exports to its European partners. As a result, Nord Stream 2 was established and in February 2017 the Russian gas giant increased its share from 51% to 100%. Due to our estimates its OFDI stock was only $67 million but afterwards Nord Stream 2 capital was significantly increased (to $1.5 billion) for practical realisation of this giant construction project.. However, 100% of shares of Nord Stream 2 AG were pledged by Gazprom until a full settlement of the secured obligations (according to the agreements signed within the framework of financing the Nord Stream 2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation & Finance B.V.).

At the same time Gazprom is the leading Russian investor in Poland due to its OFDI in another transportation route from Siberia to Western Europe. At the end of 2017, its investment stock in 48% of EuRoPol GAZ was $514 million while initial costs of the project exceeded $1 billion. Only political considerations of Poland prevented the extension of this infrastructure project in the 2000s and opened the way for Nord Stream. As a result, Germany became the most successful transition country in Russian gas export chains despite the geographical location of this country. Germany received additional OFDI from Gazprom in different infrastructure objects including gas supply business. At the end of 2017, Gazprom's investment stock in 50% of WIGA was $789 million. Other significant Russian OFDI projects in gas industry of Germany are trans-shipping (e.g. Wintershall AG is a company for gas exploration overseas). The presence of Gazprom in the Baltic States and Finland was cut by the EU's new protectionist legislation. Latvia was the last state which forced the Russian giant to split and sell its subsidiaries according to the Third Energy Package. Thus, at the end of 2017 Gazprom's investment stock in 34% of Latvijas Gaze was still $60 million. Gazprom was forced to exit from its subsidiaries in Lithuania in 2014 and from its subsidiaries in Finland and Estonia in 2015. In 2013, Gazprom's total OFDI stock in four countries was about $388 million ($152 million in Latvia, $78 million in Lithuania, $138 million in 25% of Gasum in Finland and about $20 million in 37% of Võrguteenus in Estonia).

In general, the Baltic Sea region is attractive for Russian OFDI mainly to its transitional geographical role for Russian exports to Europe. We can find not only pipelines of Gazprom but also a pipeline of Transneft in Latvia where Russian company owns 34% (although LatRosTrans transported only 3.4 million tons of oil products in 2017 or 62% of the level in 2013 and 14% of the level of 1998) and transport subsidiaries of Globaltrans in Finland and Estonia as well as OFDI in port infrastructure made by various Russian transport, chemical and coal companies in these three countries of the region. Some of these Russian MNEs have industrial plants in the Baltic Sea region too. For instance, non-current assets [1] of Acron in Polish production of fertilizers equalled $392 million (Grupa Azoty) while its non-current assets in Estonian sea terminal equalled $69 million at the end of 2017. Another Russian significant producer of fertilizers EuroChem also has both industrial plant (Lifosa in Lithuania) and sea terminal (in Estonia). Some of these projects cannot be seen in Russian official OFDI statistics due to registration of MNEs in Cyprus, Switzerland or other trans-shipping countries.

The Baltic Sea region is not very attractive for resource-seeking OFDI. Formally there are several large Russian oil investors in some of its countries however localisation of their projects is not connected directly with the Baltic Sea. For instance, Lukoil entered exploration business in Norway in 2013 while Letter One as an FDI fund which was established mainly by former private owners of Russian TNK-BP received presence in Norway and Germany in 2015. Rosneft is owner of several refineries in Germany since 2011 but some of them are in southern lands of the country.

Nowadays, NLMK is the largest Russian steel company with subsidiaries in the Baltic Sea region. Its non-current assets equalled $124 million in DanSteel at the end of 2017. This plant was officially acquired in Denmark by the Russian MNE in 2006. Severstal, TMK and Mechel have trading companies (in Latvia and Germany correspondingly) and the latter also owns small Mechel Nemunas plant in Lithuania. There are also industrial assets of Russian non-ferrous metal companies. Norilsk Nickel has the largest subsidiary. It became the owner of Harjavalta in Finland in 2007 (non-current assets in this company exceeded $0.25 billion). Rusal appeared in Sweden at the same year (its non-current assets in Kubikenborg Aluminium equalled $153 million at the end of 2017). VSMPO-Avisma also controls plant in Sweden (a small one since 2005).

There are several significant projects with technology-seeking Russian OFDI in machinery sector and some other manufacturing industries in the Baltic Sea region. Many of them started before 2013 but some new projects also appeared. Usually technology-seeking motives combine with market-seeking motives which are typically dominated for Russian OFDI in food and beverages and some other industries (in fact, the matrix of Russian OFDI motives is more complicated – see in detail Liuhto 2015).

Volume of Russian investment exceeds $100 million in following projects: Polish subsidiary of alcohol producer Roust, several wood-processing factories within Klausner Group of Ilim Timber in Germany, pharmaceutical plant of R-Farm in Germany and Food Union company with plants in three Baltic States, Denmark and Norway. It is also worth to mention pharmaceutical company Kevelt of Pharmsynthez and cosmetics producer Eurobio Lab of Natura Siberica in Estonia, Arctech Helsinki Shipyard of Russian United Shipbuilding Corporation (USC) in Finland[2], producers of refrigerators Snaige of Polair and producer of construction materials MIDA LT of Technonicol in Lithuania, as well as plants of Russian Solod in Germany and subsidiaries of Vostok-Service which produce protective garment in Denmark (Otto Schachner) and Finland (BockMann).

1 Non-current assets are company's long-term investments or assets that have a useful life of more than one year. At absence of other statistics this indicator can be used as an approximate estimate of FDI stock.

2 However, USC is seeking a new majority owner for Artech Helsinki Shipyard due to US sanctions.

Despite the presence of Russian investors in different sectors, the general level of industrial diversification of Russian OFDI in the Baltic Sea region is lower than in the post-Soviet area. For example, there are no Russian investments in telecommunications and only few projects exist in electricity, retail, banking and insurance sectors. Such situation can be explained by the level of competition which is higher in the EU for Russian companies in comparison with the CIS. If we look at industries with small OFDI, we can also see a gap between the CIS and the EU. For instance, there are no foreign affiliates of Russian universities in the Baltic Sea region. The only affiliate of a Russian economic university in Latvia existed in 2008-2015[3]. At the same time the Lomonosov Moscow State University and some other leading Russian universities established three dozens of affiliates in the post-Soviet area[4]. There are only some small subsidiaries of Russian information technology (IT) companies in the Baltic Sea region as well (e.g. ABBYY in Germany and Kaspersky Lab in Poland).

Nevertheless, there are some Russian investment projects in services of the Baltic Sea region which are typical especially for the EU. We can emphasise Nürburgring (a former Formula1 track) in German Rheinland-Pfalz and Hartwall Arena in Finland owned by Russian businessmen. The largest Russian project in services is TUI. Alexey Mordashov via S-Group bought a first stake in this German tourist company in 2008. In 2016 he began to increase his share in TUI. At the end of 2017, his share reached 23% and his OFDI stock in the company exceeded $3.6 billion.

4. Main problems of Russian investment relations with countries of the Baltic Sea region

Investment of Gazprom is the most politicised topic in the EU-Russian economic relations in the Baltic Sea region. There is a permanent conflict around the Nord Stream project, its enlargement and other cases of Gazprom's presence in the region. It should be also stressed that Russia initiated the trade dispute in the World Trade Organization in April 2014, challenging the EU rules that it deemed discriminatory against Gazprom. In August 2018 the WTO agreed with some of Russia's arguments (e.g. against the EU restrictive regulation of the OPAL pipeline which will be crucial for the Nord Stream 2) while dismissing others. It is interesting that both Russia and the EU announced their satisfaction[5]. It is an additional proof that Gazprom's giant pipeline projects have mainly economic nature. In fact, Gazprom demonstrates classic market-seeking motives although some experts try to see only political motives in its OFDI in pipelines.

Problems of Russian investors in the Baltic Sea region infrastructure have different consequences but in general Russian companies prefer partners with lower level of Russophobia. There was not only the case of Gazprom. Indeed, Global Ports, Transneft and some other companies began to develop Russian and sometimes Finnish terminals and other infrastructure objects at the expense of enlargement of their subsidiaries in Estonia or Latvia.

However, relations between Russian businessmen and the Baltic States cannot be seen as a black and white picture. Russian economic policy has many deficiencies. The economic model of V. Putin and D. Medvedev cannot support significant growth in Russia and the country gradually accumulates social problems (an illustrative example is an idea of a radical pension reform in 2018). There are many discussions about main negative features of current situation in Russia (e.g. defective democracy and electoral authoritarianism in politics, high level of corruption, monopolisation and excessive state control in economy, the lack of career lifts for talented people and a new "zastoy" [stagnation] like in Brezhnev's time in social life, etc.) but in any case many businessmen do not see prosperous future for their companies in Russia under Putin and Medvedev regime. As a result, "migrant" companies as a new type of Russian MNEs appear.

The largest Russian migrant business group is LetterOne which was formed by Alfa-group in Luxembourg in 2013. It was not a pure registration in trans-shipping jurisdiction because its headquarters were established in London. Moreover, the initial attempt of migration took place in the case of VimpelCom (renamed in 2017 into VEON which is now a part of LetterOne). This joint company of Alfa-group and Norwegian Telenor moved its main headquarters from Moscow to Amsterdam in 2009 and in all reports and questionnaires identifies itself as an international Dutch MNE with a Russian subsidiary (however, VimpelCom never had subsidiaries in the Baltic Sea region). The shift of the energy segment of Alfa-group into the EU was explained by sell of TNK-BP by Alfa-group, Renova and other private owners to Russian state-controlled Rosneft. Former owners of TNK-BP from Alfa-group (Mikhail Fridman and others) did not want to abandon oil sector. On the contrary, they used money from TNK-BP deal (more than €5 billion) for new investments in German DEA in 2014 (with assets in Norway and some other countries).

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3 It was a branch of the Moscow State University of Economics, Statistics and Informatics which was closed during reorganization of that university after it was merged by Plekhanov Russian University of Economics. In 2017 the Russian ministry of education and science announced plans to reopen this branch. At the moment there are only some Russian language education programs in the Baltic Sea region.

4 http://www.russia.edu.ru/obruch/sng/1115. Armenia and Kyrgyzstan are leaders (each has 8 affiliates). Russian affiliates exist even outside the former USSR (e.g. in Mongolia and China).

5 https://www.rt.com/business/435674-wto-ruling-gazprom-eu/

There are several other significant migrant companies with Russian roots which are active in the Baltic Sea region. Ritzio International of Oleg Boyko became a migrant after the change of Russian legislation on casinos in 2009. Nowadays, his Finstar Financial group with specialisation in new financial technologies is also an official owner of Ritzio which has subsidiaries in the entertainment sector of several European countries including Germany (its OFDI stock is about $0.2 billion). Ritzio had also casinos in Latvia before 2015 while nowadays Finstar has only a subsidiary for financing business in this country as well as in Finland and Germany. Alcohol producer SPI Group of Yuri Shefler is another example of a Russian migrant company. The conflict between private SPI Group and state-controlled Soyuzplodimport around famous vodka brands stimulated foreign activities of SPI Group which moved its headquarters to Luxembourg. In three Baltic States SPI Group owns several production and retail subsidiaries within Amber Beverages Group including Latvijas Balzams factory.

It should be stressed that Russian migrant MNEs appear not only due to some direct or latent conflicts with Russian legislation or interests of state-controlled giants. Many businessmen are disappointed in general business environment in the Russian Federation but do not break all ties with their motherland. For instance, Andrey Beskhmelnitsky sold a control stake of Russian company Unimilk and established afterwards Food Union in Latvia in 2012. His Latvian company broadened its business in Latvia and other Baltic States but also acquired subsidiaries in Russia (in 2014), Denmark (in 2015) and Norway (in 2016). Moreover, A. Beskhmelnitsky retains a minority stake in Danone subsidiary in Russia (former Unimilk). In fact, many Russian companies in manufacturing industries as well as in the IT sector and other services of the Baltic Sea region prefer to hide their Russian roots. For instance, there are 1,000-3,000 companies with Russian capital in Germany but many of them (especially small and medium-sized firms) prefer to show their German nature because of both Russophobia and for the sake of cheap credits and other economic considerations (Belov 2014).

Possible economic sanctions against Russian private investors in the Baltic Sea regions are not empty fears. Many Russian representatives of middle classes lost their interest in OFDI in Latvian real estate after changes in Latvian legislation in autumn 2014[6]. Highly likely Latvia increased the minimal investment volume for foreign citizens who sought the EU residence permit and made some additional complications in order to struggle against Russia after the start of the Ukrainian crisis. Some Russian large businessmen became direct objects of "sanctions wars". As a result, the Rotenberg brothers and Gennady Timchenko changed official owners of their assets in Finland in 2014. New problems can appear for En+ group subsidiary in Sweden due to new US sanctions against Oleg Deripaska in 2018. The legitimacy of the US and EU sanctions is under serious questions. All these actions can be interpreted as investment protectionism. Some Russian MNEs, especially state-controlled companies prefer to stop their projects in the Baltic Sea regions before possible expropriations, such as Uralvagonzavod in Latvia.

Sometimes Russian divestments in the Baltic Sea region are not politically motivated. At least Russian companies' reports show only economic considerations. For example, well-known Russian restaurant company Rosinter left Poland in 2014. We can remember such examples in previous periods of Russian investment expansion as well. For instance, Russian construction materials producer LSR sold all its assets in three Baltic States in 2011 because the regional concrete market became unprofitable. Sometimes it is really difficult to isolate the influence of anti-Russian sentiments of clients and decrease in revenue. However, facts of divestments are obvious. For example, Lukoil sold its 37 petrol stations in Estonia in 2015 and its 230 petrol stations in Poland, Lithuania and Latvia in 2016 due to negative business climate for Russian companies[7]. It is also should be stressed that companies usually do not prefer to explain their problems, especially when they decided to accept local protectionism for long-term business aims. A good illustration was Acron in Poland which tried to become a controlling investor of Grupa Azoty in 2012-2014 but Acron received less than 20% because it was suspected as a hostile acquirer.

I do not pretend to analyse political aspects of the EU-Russian economic relations in the Baltic Sea region in detail. However, the significant influence of some geopolitical and historical factors is evident. For example, the Nord Stream 2 project is interesting for Germany not only because of its economic profitability but also as a compromise between German supporters and opponents of "sanctions wars" with Russia. Another illustration is connected with anti-Russian policy in Poland or three Baltic States which is not only the result of some politicians' activities but also a good way of new post-socialist national identity construction. At the same time, Russian politicians try to diversify the geography of Russian economic relations after pro-European orientation during the 1990s because of the rapid rise of Asia in the world economy. In such circumstances the European nostalgia of Russian elites can be easily beaten only by escalation of hostility in the EU-Russian political relations.

6 http://www.gorod.lv/novosti/270999-nedvizhimost-v-latvii-rossiyane-teryaut-k-nei-interes-i-vid-na-zhitelstvo-bolshe-ne-privlekaet
7 https://www.rbc.ru/business/05/02/2016/56b497e69a7947ab333a1b5c

5. Conclusion and recommendations

There are two possible clusters of recommendations for further development of Russian OFDI in the Baltic Sea region. The first one is focused on Russophobers in the EU and Russian opponents of close EU-Russian relations. Some Western experts and politicians, especially in Poland and three Baltic States believe in their ability to isolate Russia. In practice it means only reorientation of Russian foreign economic relations and additional economic losses for transit countries in the Baltic Sea region. However, such losses can be compensated by additional financial assistance from the EU. Roughly speaking, more pragmatic Germany and Finland can earn additional money from self-isolation of Poland and three Baltic States and then pay them for the sake of European solidarity around anti-Russian hysteria. There is almost nothing to do with such Russophobia from the side of the Russian Federation. Of course, some experts can offer pro-Russian propaganda or more fine methods of positive image-building of Russia in its Western neighbours. However, we should not forget that friendship with them is not a popular idea in Russia after three decades of anti-Russian politics of these countries. According to annual Levada survey, 26% of Russian respondents named Latvia among the five main enemies of the Russian Federation at the end of May 2018. The same indicator was 24% for Poland, 23% for Lithuania, 17% for Germany and 15% for Estonia. These countries were in 4th – 8th places after the United States, Ukraine and the United Kingdom. During past five years, the most radical negative changes took place for Poland and Germany. Only four Nordic countries were not named among enemies (1% for Finland and less than 1% for others)[8]. Thus, it is not a surprise that many Russians, including high-ranking experts and politicians support a quick Russian economic "shift to the East" or, exactly speaking, the rapid growth of its economic ties with the EAEU states, China, other Asia-Pacific states, India and Arab countries.

As a result, we can discuss in detail only the second cluster of recommendations which are connected with minimisation of negative impact of "sanctions wars" and further deepening of relations with less anti-Russian European countries, such as Finland. Firstly, I suppose it is necessary to establish an efficient OFDI insurance system in Russia. In contrast to rules of the Multilateral Investment Guarantee Agency (MIGA) the area of the Russian Federation state political risk insurance system should cover not only projects in 156 so named developing countries (including 11 EU member states such as Estonia, Latvia, Lithuania, Poland, etc.) but all countries including so named 25 industrialised countries. Only insured Russian MNEs should receive direct or indirect compensations from the Russian state in the case of non-commercial losses which helps the Russian Federation to reduce nepotism in both risky initiatives within "shift to the East" paradigm and "sanctions wars" with the West. In the case of industrialized countries an interesting politically motivated PR action can also occur from the Russian side if the United States or their European allies decide to use expropriation or transfer restriction against Russian investors. The most difficult practical task is to make the scale of countries in terms of political risks and general level of investment protectionism which can determine terms of insurance. It is obvious that one group of countries with highest political risks should be temporarily excluded from this Russian OFDI insurance mechanism. Such index cannot be universal and should be based on real examples of investment protectionism against Russian, Chinese and other emerging markets MNEs[9].

Secondly, it is necessary to increase mutual trust between Russia and the EU, especially member states without long-term anti-Russian policy. Proper Russian image-building policy as well as information support of Russian investors can help positive changes in dynamics and structure of Russian OFDI only in such countries. There are several steps towards mutual trust:

- explanation of Russian investors' economic motives in English-language publications (even in the case of state-controlled companies and private investors with complicated trans-shipping schemes);
- survey of fields with win-win strategies of cooperation between Russian investors and their local partners in the Baltic Sea region (especially for crucial strategies under the growing role of non-European countries in the world economy); and
- development of joint business associations and their activities in support not only German, Finnish or other companies from the Baltic Sea region in Russia but also Russian MNEs in this region (including financing support of special surveys mentioned above).

Russian companies need structures like Finnish-Russian Chamber of Commerce (SVKK) or Russian-German Chamber for Foreign Trade (AHK) to promote their business activities in Finland, Germany and other countries of the Baltic Sea region. However, it is a problem of current level of Russian entrepreneurial culture and the character of relations between businessmen and the state. Indeed, many Russian companies are not ready for civilized

8 https://www.levada.ru/2018/06/14/druzya-i-vragi-rossii-3/

9 As an example we can look at New Coface Political Risk Index (http://www.coface.com/content/download/150829/2487868/file/PR+Political+risks+21032017.pdf). On the one hand, it is the true that Afghanistan has extreme political risks for both Russian and Western investors. On the other hand, it is unconvincingly for Russians to see some the EU member states in the group with "very low political risk".

lobbyism or financing of collective information and analytical services abroad.

At the moment there are serious problems with transparency of many Russian MNEs which can prevent many proposed measures. Unfortunately, roots of this low transparency are not only in anti-Russian prejudices abroad (although we can see the decrease in transparency around foreign assets of Russian companies after the start of "sanctions wars"[10]). As a result, businessmen will probably be not eager to involve seriously in actions to normalise relations between Russia and the EU.

Thus, at first it is useful to rely on scholars in the field of the EU-Russian relations in such circumstances and to develop "second track" diplomacy. However, such a "second track" should not mean the participation of "generals from the Russian science" who are close to the Kremlin. This approach means real efforts of non-government organisations and independent scientific associations, such as Association of European Studies[11] which presents leading university and think tank specialists in economy and politics of the EU member states from various Russian towns and cities. First of all the ranked lists of real obstacles for further development of Russian economic relations with various countries of the Baltic Sea region should be constructed and possible ways to compromise between Russia and its partners from the EU should be found. Of course, even such "second track" diplomacy will have serious obstacles, such as the whole economic model of modern Russia. However, in any case we need some initial steps towards a new revival of the EU-Russian relations, especially in the Baltic Sea region.

10 For example, the largest Russian MNE Lukoil published statistics on its foreign assets only till 2014, i.e. before "sanctions wars". The 4th largest Russian MNE RENOVA closed its web site for construction after new US sanctions at the beginning of 2018. One of the largest steel companies Severstal sold its main foreign assets in the United States and the EU but its main owner Alexey Mordashov began to increase OFDI within his investment fund Severgroup (including shares of German TUI). Statistics on foreign assets of Severgroup is poor in contrast to Severstal reports.

11 http://www.aevis.ru/

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