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Frontier Capitalism:

Norwegian Business Ventures in Northwest Russia 1986 – 2014

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Contents

Preface	5
Acknowledgements	7
1. Introduction	8
1.1 Research topic and question(s)	10
1.2 Definitions: Norwegian businesses and Northwest Russia	11
1.3 Structure and historical periodization	12
1.4 Businesses observed	15
1.5 Literature and source materials	17
1.5.1 Primary sources	18
1.5.2 Secondary sources	19
1.6 Theoretical approach and research methodology	21
1.6.1 Gathering information by use of interview	21
1.6.2 Case study	23
2. First phase: The first business ventures in the USSR 1986 – 1991	24
2.1 Soviet Union under Gorbachev: glasnost, perestroika, and reforms	24
2.2 The borderlands are opening: arrival of the first Norwegian business pioneers	25
2.2.1 Case study: Kimek AS	26
2.3 Dissolution of the USSR	28
3. Second phase: Russia’s turbulent transition to market economy 1991 – 1998	29
3.1 Shock therapy, privatization, and rough economic times	30
3.2 Case study: Tschudi Shipping AS	32
3.2.1 Some reasons why Tschudi Shipping succeeded	34
3.3 Other Norwegian business ventures in the 1990s	35
3.4 The role of the Barents Secretariat in encouraging businesses	38
3.5 Russian financial crisis of 1998	40
4. Third phase: Russia on the rise; oil boom and the Shtockman project 1998 – 2008	41
4.1 Economic progress under Putin	42
4.2 Case study: Barel AS	44
4.2.1 Some reasons why Barel AS succeeded	46
4.3 Recession in Russia and the 2008 global financial crisis	50
5. Fourth phase: Economic recession, Ukrainian Crisis, and exodus 2008 – 2014	53

5.1 Russia under Medvedev	54
5.2 Case study: Ølen Betong	55
5.2.1 Some reasons why Ølen Betong succeeded	58
5.3 What happens with Ølen Betong?	61
5.4 Other Norwegian business ventures 2008 – 2014	62
5.5 The exodus: Oil crisis, sanctions, and the Ukrainian Crisis	65
6. Conclusion	68
6.1 Why Norwegian business presence is not consistent	68
6.2 Important historical changes throughout the phases	72
6.3 Do larger companies have better chances of succeeding?	75
6.4 Epilogue: Beyond 2014; Business development in the Arctic today	75
7. Bibliography and literature	78
8. Attachments	84

Preface

The idea to write a dissertation about the history of Norwegian business ventures in Northwest-Russia since the mid-1980s / over the last four decades started in the spring of 2016 when I was enrolled in the bachelor's programme in Russian Studies at the University of Tromsø – the Arctic University of Norway (UiT). Back then, I took a break from my studies to work as a student intern at the Norwegian Consulate General in Murmansk. The location of the consulate which is the northern most diplomatic mission of the Norwegian Ministry of Foreign affairs is not accidental. Since Mikhail Gorbachev's policy of perestroika and glasnost and the subsequent dissolution of the Soviet Union, Norwegian interests across the borderland have been mainly centred around cooperation with Russian on environmental issues, management of marine resources, energy cooperation, and cultural activities. Other important areas include, indigenous people's rights, cross-border exchange, economic cooperation, as well as other matters related to Norwegian-Russian relations. During my internship, I developed an interest in the history of Norwegian companies and their motives to do business in this part of the country. My other motivational reason to write specifically about this topic is that business development in this region has not been widely covered in the past by academics, scholars, and other students, whose interests and research area is Russia or Norwegian-Russian relations. Furthermore, in the context of Barents Regional Cooperation (Norwegian: *Barentssamarbeidet*), business development in Northwest-Russia is the least successful area, despite Norwegian companies receiving millions of Norwegian kroner in government support. Moreover, within the same context, the amount of attention it receives is less compared to other more "successful" areas such as culture, sport events, visa free regime, and other cross-border related events.

I have based this dissertation on the available literature and other source material related to economic development, regional history, and government policy that I could obtain. They come in the form of articles, reports, books, business guides, as well as other academic works. In addition to written sources, I have conducted several interviews of Norwegians business leaders who have extensive experience and knowledge in their field of work in Northwest Russia. Some of them have even been doing business here since the mid-1980s when border was gradually opening to outsiders thanks to the Soviet Union's policy of openness and the

thawed political situation between the two blocs at the time.

All the informants that I interviewed for this thesis have given their consent to use their personal names. The same goes for quotes and other references that can be traced to them. I will not conceal the fact that parts of this dissertation are based on my own personal experience living and travelling in Russia since starting my studies in Russian Studies in 2014. While working as an intern at the consulate, I met fellow Norwegians with business interests in Northwest Russia and I was fortunate to visit some of their production facilities as part of a field trip organized by the consulate. Furthermore, I became fascinated listening to the unique and somewhat surreal personal stories of those early pioneers who came to do business in post-Soviet Russia during the country's chaotic transition to market-economy.

The choice of writing this dissertation in English is deliberate, since I want to make my work more accessible to a larger audience who might find this topic interesting or relevant. These include Norwegians and Russians on either side of the border who are either familiar or simply curious about the history of Norwegian business ventures in Northwest-Russia. In addition, I hope that writing this dissertation in English will give people who are foreign to this topic an insight into the exceptional relationship between Norway and Russia in the Arctic. Translations from Norwegian/Russian source materials to English are done solely by the author. However, quotes recorded in either Norwegian or Russian translated to English will be left as footnotes with the original language intact. Transliteration of Russian characters in Cyrillic alphabet to Latin is also done by me. In this case, I keep the transliteration from Cyrillic to Latin closer to the standard English pronunciation. For example, the given name «Дмитрий» and adjective «русский» as written in Russian, are spelled «Dmitry» and «russky» respectively, instead of the Norwegian version «Dmitrij» and «russkij».

Although not intended as a business guide, I hope, nevertheless, that my thesis may be insightful for those who wish to do business in Russia or have considered the thought. Moreover, I believe this thesis can be useful for others who wish build on whether it is for further research on the same topic, the history of the Barents Regional Cooperation, or Norwegian/Russian history in general.

Acknowledgements

My sincerest gratitude goes to everyone who has contributed with the making of my master's thesis. I truly appreciate all the help, guidance, encouragement, and insightful feedback in writing my first ever academic work.

Firstly, I would like to thank my supervisor, Kara Aga Myklebust. She has been most helpful throughout the whole process in writing this study. Her supervision, guidance, constructive comments, as well as understanding and encouragement, made this thesis possible. Thanks to Andrey Rogachevski for reading through my draft and suggesting the sub-research questions when the thesis was at its early stage. Much appreciation goes to Geir Hønneland for adding his encyclopaedic knowledge and insight about Russian affairs into my draft. I owe a big thanks to my fellow "Russian Studies" mate and good friend Knut who soldiered on with me through the whole master's programme course. I feel privileged having your involvement into the making of this thesis.

Thanks to my informants for taking the time and effort to participate in my research. They are: Geir Torbjørnsen, Rune Rautio, Kristin Høiby, Frode Mo, Heidi Andreassen, and Felix Tschudi. Your commentaries and first-hand experience about Norwegian businesses in Russia did indeed make the difference in obtaining enough material for my thesis. Moreover, I honestly enjoyed talking and hearing your stories.

Last but not least, I would like to thank my family for their support during my most intense and difficult semester.

I could not have done it without you all.

1. Introduction

*“I am not in the least afraid of foreign capital, since I consider it is the interests of our country. No country has been developed without foreign capital. What I am afraid of is just the opposite, that our way of doing things has such specific characteristics, so different from the way things are done in civilized countries, that not many foreigners will want to do business with us”.*¹ Sergei Witte – Russian Minister of Finance (1892-1903) to Emperor Nicholas II

One century later after the breakup of the Soviet Union, Witte’s words draw many parallels of the same issues that foreigners experience when doing business in today’s contemporary Russia that persistently still exist to this day. Russia is a challenging country to do business in according to several business guides that one can easily find by doing a quick search on the Internet. The most common issues that are mentioned are the country’s problems with corruption, bribery, lack of trust in the judiciary, and complex bureaucratic system among others. In addition, cultural issues related to language, social norms, business mentality, but also lack of understanding of Russian culture and history are also cited as reasons why it is difficult to operate inside Russia both in the short and long-term. Despite these worrying issues, there are plenty of examples of foreign companies – from small, medium, to large that have been successful to contradict this. If one is careful, plan thoroughly, as well as if you do your research to avoid the mistakes that others have done before, then starting a business anywhere in the Russian Federation is realistically conceivable.

Since the breakup of the Soviet Union in 1991 and the subsequent turbulent transition from socialist state-planned economy to market economy in the same decade, Russia has significantly improved the conditions for private enterprises and foreign companies. According to a 2018 report by the World Bank which annually ranks countries in terms of ease of doing business, the Russian Federation now ranks 35th out of 190 countries – only

¹ Kreuzenbeck Ulrich, Høiby Kristin. Sherpa Konsult (2012): *«Den besværlige virkeligheten: Norske bedrifters erfaringer fra næringsvirksomhet i Nordvest-Russland 1990-2010»*, p.14

behind Japan on the 34th spot.² In comparison, the 2008 edition of the same report Russia was ranked at 100th place.³ In the quest of transforming the economy to a capital-style market economy to accommodate the new political and economic course of the newly established Russian Federation, much of the country's legislation had to be changed to make it more on par with Western countries. The most noticeable changes were private property rights, banking and tax legislation, loan conditions, deregulations, and labour law. In addition to changes in the legislation, Russian enterprises had to familiarize themselves with common concepts found in a capitalistic-style market economy including private ownership, supply and demand, hourly wage, capital accumulation, formal written contracts, etc. As such, doing business in today's Russia has become easier compared to twenty years ago. Nevertheless, there remain challenges regarding to corruption, nationalisation of strategic companies, the persistent black market, hostile takeovers, geopolitical tensions, justice system, and lastly, the fierce competitive nature of Russian business mentality that base itself on quick profit even at the expense of others.

The first noticeable influx of Norwegian companies to Northwest-Russia arrived in the middle of the 1980s when the Soviet Union was in the midst of the effects of perestroika and glasnost. In the aftermath of the Soviet dissolution, more Norwegian companies and private entrepreneurs particularly from Northern-Norway followed suit and set up business in Russia. The establishment of the Barents Regional Cooperation in 1993 with its aim of strengthening regional cooperation including business development further accelerated commercial activities in Northwest-Russia. The presence of an expatriate Norwegian business community in the region has created a unique research case based on their accumulated knowledge, large contact network, and first-hand experience. Nonetheless, the presence of Norwegian companies in Northwest-Russia is not a lasting phenomenon i.e. they do not stay there for an indefinite time. Of the hundred or so companies and private ventures in Northwest-Russia between 1986 to 2010, only twelve Norwegian-registered companies remain as of November 2019.⁴ Lack of profit, bankruptcy, corruption, political factors, cultural and language issues,

² World Bank 2018 (2018). «*Doing Business 2018: Reforming to Create Jobs*»

³ The World Bank 2008, *Doing Business 2008*

⁴ (2019) «*Norwegian Companies in Murmansk*». Excel document from the Norwegian Consulate General in Murmansk sent to the author via email. See attachment 1

or being outrightly coerced out of the country by either criminal or arbitrary means are common reasons why foreign companies struggle to stay in Russia. Furthermore, rather than being a consistent presence in the region, companies come and go sporadically in “cyclic waves”.

Throughout the more than 30-year long history of Norwegian companies in Northwest Russia since 1986 to the present, it is possible to identify when the presence of companies has been at its high or low. Hence one can divide this presence into different time periods e.g. Soviet period 1986 – 1991. What prompted the influx and departure of Norwegian companies in Northwest Russia? How can their history tell us about business development? These questions form the research question to the current study: *«What can we conclude from historical phases of Norwegian businesses in Northwest Russia in terms of business development?»*. To fully answer this research question, one must look at the history of each individual period and analyze their characteristics.

1.1 Research topic and question(s)

The research question seeks to analyze the reasons why Norwegian companies arrive sporadically in phases instead of being a consistent presence. Within the context of this thesis – a phase is understood as a period of heightened commercial activities by Norwegian registered companies to Russia’s northwestern regions of Murmansk and Arkhangelsk. Furthermore, the same question can be extended to explain what distinguishes the different phases apart, together with their overarching characteristics. In addition to the main research question: *«What can we conclude from historical phases of Norwegian businesses in Northwest Russia in terms of business development?»*, other sub-questions are:

- Why has it been difficult for Norwegian companies to establish a permanent presence (business) in Northwest Russia?
- Do large multi-national companies such as Equinor (Statoil), Norsk Hydro, Kværner, Yara, and Jotun fare better than smaller businesses?
- What factors influence the arrival of Norwegian and other international companies to Russia, and is there a degree predictability, or recurrent theme behind it?
- Lastly, by looking at the previous time phases and comparing them, is there a possibility to foresee a fifth influx of Norwegian commercial activities after 2014? If so, how may it unfold?

1.2 Definitions: Norwegian businesses and Northwest Russia

Before embarking with the topic at hand, it is necessary to define two central concepts of the current thesis: (1) What constitutes a Norwegian company, and: (2) the geographical definition of Northwest Russia.

1) The definition of a Norwegian business in Northwest Russia in regards to this study are companies that are private-owned, publicly registered in the Brønnøysund Register Centre, shareholders are Norwegian citizens, and most importantly; they must include Russia as part of their business strategy, though not necessarily as its main market. The exceptions are tourist agencies based in Kirkenes and Sør-Varanger and Kimek AS. The latter specializes in ship repair and industrial solutions mainly for the Russian fishing fleet of which the company receives 70% of its profits from.⁵

The main office is in Norway; although, some have local offices or a production facility in either Murmansk or Arkhangelsk. As a rule, most foreign companies tend to avoid attaching too much physical value abroad. This is especially true in markets with high level of financial risks such as Russia. The workforce of these companies is almost exclusively comprised by local Russian citizens, while the corporate leadership is Norwegian. In some cases, a local office may have no Norwegians overseeing the production as in the case of Barel AS. Finally, these companies must pay their workforce salary in accordance to Russian labour laws.

2) Northwest Russia in this thesis is regarded as the area that encompasses the administrative divisions of Murmansk and Arkhangelsk oblasts⁶, the federal republics of Karelia and Komi, as well as Nenets Autonomous Okrug⁷. Although Karelia and Komi Republic, together with Nenets Autonomous Okrug are included in the terminology Northwest Russia, they are, however, purposefully omitted in this study when referencing the region. The reason is the absence of Norwegian businesses there. For example, in 2013, only 4% of all Norwegian business project were aimed at Nenets Autonomous District, and less than 2% aimed at the

⁵ Amundsen Trine, Salo Anja, Skårvik Trine (12.11 2017): «Vi trenger felles industriprosjekter med Russland nå». Published in «Nordnorsk debatt».

⁶ Oblast (*Russian: область*) – is a common Slavic term for administrative division that corresponds to the English terms: region or district

⁷ Okrug (*Russian: округ*) is similar to oblast albeit smaller than oblast

Republic of Karelia.⁸ In the Republic of Komi there have only been two projects by Norwegian companies; one in 2003, and another one in 2007.⁹

Northwest Russia covers approximately 908.000 km² and has a combined population of 2 million. It should be noted that the term Northwest Russia is not widely used domestically as a distinct region, except in Russian medieval historical contexts. Instead, the term Northwestern Federal District is used and consists of several federal subjects such as St. Petersburg and Kaliningrad. On the other hand, in Norwegian foreign policy and business contexts (*Norwegian: nordvest-Russland*), the term Northwest Russia is more frequently used. For instance, the Norwegian General Consulate in Murmansk defines Northwest Russia with Murmansk, Arkhangelsk oblasts, and Nenets Autonomous Okrug, as its area of responsibilities.¹⁰ Since the primary sources favour the term Northwest Russia, as well as for the sake of convenience, it is therefore sensible to refer this region as such.

1.3 Structure and historical periodization

Because this thesis is a study of history, it must follow the academic discipline and methods rooted in historiography. Periodization whereby separating a longer time-span into different periods is common in the subject of history to analytically study historical processes and capture continuities and changes within the time-span. Specific historical events or development trends act as both the starting and end point of a phase. There has been a total of four identifiable phases of Norwegian business development between 1986 to 2014 that will be examined in this thesis. They can be grouped into different time periods depending on when a sizable influx of companies is observed. The phases are organized in the following time periods:

- 1986 – 1991: *First phase; The first business ventures in the USSR*
- 1991 – 1998: *Second phase; Russia's turbulent transition to market economy*
- 1998 – 2008: *Third phase; Oil boom and the Shtockman project*

⁸ Bambulyak Alexei, Hahl Martii, Rautio Rune (2013): “*Economic Cooperation in the Barents Region*”. Akvaplan-niva As, Report 6265, p. 19

⁹ Bambulyak Alexei, Hahl Martii, Rautio Rune (2013), p.19

¹⁰ Norwegian Ministry of Foreign Affairs (2016). Retrieved from <https://web.archive.org/web/20160807193104/http://www.norvegia.ru/Norsk/Ambassade-og-konsulater/GKMurmansk/Velkommen/>

- 2008 – 2014 *Fourth phase: Economic recession, Ukrainian crisis, and exodus*

The starting and end year of each phase are separated by historical events in Russia's economic and political development that affected the Norwegian investments and business activities in Northwest Russia in either a positive or negative way.

The first phase from 1986 to 1991 is characterized by a shift in the Soviet Union's policy towards its own economic and political system fronted by its new leadership led by the younger and more energetic Mikhail Gorbachev. The year 1986 marks one of the earliest Norwegian business ventures into Northwest Russia when a company from Kirkenes – Kimek AS started selling boots and stockings across the border.¹¹ Concluding the first phase in 1991 is a rational demarcation because the year marks the end of the Soviet Union and beginning of the Russian Federation as its successor state.

During the next phase from 1991 to 1998, Norwegian businesses arrived sporadically in Northwest Russia throughout the 1990s and declined towards 1998 – the year of the Russian rouble crack. The Russian financial crisis had a devastating effect on the country's economy and worsened the situation for foreign businesses. The devaluation of the rouble currency meant that businesses who traded or invested with roubles could no longer stay competitive nor profitable in the long run. Small companies and sole proprietorship businesses were especially vulnerable. 1998 is arguably the year that cemented Russia's mounting economic and political problems that began under president Yeltsin. Towards the end of his presidential term Yeltsin struggled to come to terms with his personal and health problems and he became more absent from public life. Yeltsin resigned the following year in 1999 and was succeeded by Vladimir Putin – paving the way of a new era in the history of Russia.

The third phase from 1998 to 2008 arrived shortly before Vladimir Putin became president at the turn of the millennia. The period under Putin's two presidential periods is often described as a time of stability, improved standards of living, and better times for the average Russian citizen. These new changes were made possible largely thanks to the high global price of oil

¹¹ Amundsen Trine, Salo Anja, Skårvik Trine (12.11 2017)

at the time. Indeed, Russian export of oil and natural gas provided a much-needed boost to the economy, and the country's GDP grew continuously for several years in a row during the early 2000s. The decade saw the influx of major Norwegian enterprises such as Statoil (renamed Equinor in 2018), Yara, Norsk Hydro, Kvaerner, to partake in developing Russian state-funded projects, most notably the Shtokman-field in the Barents Sea – presumed to be the largest deposit of oil and natural gas in the world. However, by 2008 the presence of Norwegian and other foreign companies dwindled as Russia was yet again facing an economic recession. Global oil prices reached a record low number causing massive layoffs in the oil industry. Russia, as an oil exporting country was particularly affected – forcing the country's economy to go into recession and the rouble currency losing its value. In addition, political factors such as the Russo-Georgian war and increasing government takeovers of private enterprises contributed overall to the downturn of the economy.

The final phase from 2008 to 2014 is a continuity from the previous phase, whereby Norwegian companies leave Russia *en masse*. The period is arguably the most challenging one for Norwegian companies since the rouble crack in the late 1990s. The most devastating setback was the shelving of the Shtokman-project. Statoil, Norsk Hydro, together with several subcontractors were heavily involved in the project, but later abandoned the project after the former pulled out its investment in 2012.¹² Another major setback which further complicated the situation for Norwegian companies happened in 2014 following Russia's annexation of Crimea and subsequent Russian military intervention in Eastern Ukraine and Syria. These actions prompted the United States, the European Union, Canada, and Norway to impose economic sanctions on Russia, which the Kremlin countered by imposing counter-sanctions in retaliation. Since 2014, Norwegian export to Russia has fallen from 8,5 billion NOK to 2,1 billion in 2017.¹³ Norwegian fish exporting companies were particularly hit hard by Russian counter-sanctions leading many to abandon any further business projects in the Russian market.

The end-year of 2014 marks the finish line of this thesis. A segment of the post-2014 period with more recent findings is covered in the epilogue chapter. The epilogue is based on current

¹² Haugsbø Frank (27.05.2015) «Norge bør ikke investere i Russland». Published in VG

¹³ NTB (27.03.2018) «Russland-eksporten faller, mens importen øker». Published in Aftenposten

trends in economic development in the Arctic, including oil and gas extraction, tourism, fishing, and shipping through the Northeast Passage. News articles, research reports, and comments from experts in Arctic affairs provide the basis for this chapter. Moreover, the white paper issued by the Russian government in 2009 titled: «*Foundations of The Russian Federation's State Policy in The Arctic Until 2020 And Beyond*» states among its main objectives the expansion of the Russian Arctic as a resource base for the country's economy.

¹⁴ Together with Norway's ambitions for commercial activities in the Arctic – the region may again provide Norwegian companies with a basis for business opportunities in the coming years.

1.4 Businesses observed

Norwegian companies operating in Northwest Russia have mainly been centred around the oil & gas sector, and maritime industries such as shipping, fishing, aquaculture. Businesses in heavy industry, timber, transport and logistics, are also represented to a lesser extent.

However, the composition of business sectors has shifted throughout the different phases. The first and second phases from 1986 to 1998 saw mostly the influx of small mostly trading and retail companies. The makeup of companies in the third phase from 1998 and throughout the 2000s were mostly large Norwegian enterprises such as Equinor and Kvaerner. Only the fishing and shipping industry have stayed consistently throughout all the phases. In 2007, the oil & gas, fishing, and maritime industries, accounted for 28% of Norwegian business establishments in Moscow, and slightly over 30% of the establishments in Northwest Russia.¹⁵ Other sectors in the same region such as consulting and service-based businesses account for 18%, real estate 9%, and trade 9%.¹⁶ Regarding geographical distribution of Norwegian business projects in Northwest Russia: 54% of the projects aims fully or partially at Murmansk, while 20% aims for Arkhangelsk.¹⁷ As mentioned in chapter 1.2, only 4% of the projects were aimed at Nenets Autonomous District, and less than 2% aimed at the

¹⁴ Russian «*Основы государственной политики Российской Федерации в Арктике на период до 2020 года и дальнейшую перспективу*» Published 03.2009. Retrieved from:

<https://rg.ru/2009/03/30/arktika-osnovy-dok.html>

¹⁵ Grünfeld Leo. A, Fjærtøft Daniel, Jakobsen Erik W.(2007), «*Norske handelsinteresser overfor landene Kina, Japan, India og Russland*». MENON-publikasjon nr. 1 / 2007, p.71

¹⁶ Grünfeld Leo. A, Fjærtøft Daniel, Jakobsen Erik W.(2007)

¹⁷ Akvaplan-Niva (2013)

Republic of Karelia.

Companies selected as candidates for case study were based on open sources, media coverage, and available informants. Furthermore, these companies were chosen because of their expertise in their respective fields, consistency during each phase, and economic impact on the region. The current line-up of companies was also selected to reflect diversity in business activities. As of 2019, all the companies included for case study are still present in Russia. As such, they make up an exception to the sub research question: *Why has it been difficult for Norwegian companies to establish a permanent presence (business) in Northwest Russia?* Note that some of these companies are registered under a Russian holding group. This varied composition is reflected in the follow list:

Company name	Russian division	Location(s)	Main activities	Size (employees)	Entry year in Russia
Barel AS	N/A	Kirkenes/Murmansk	Electronics	70	2000
Kimek AS	ООО Севгипроры-бфлот	Kirkenes	Ship repair & industrial solutions	74	1986
Tschudi Shipping AS	N/A	Kirkenes	Shipping & logistical services	N/A	1992/1993
Ølen Betong	ООО Олен Бетон	Murmansk/Ølen	Concrete manufacturing	450	2008

The size of the companies doing business in Russia range from small-, medium-, to large enterprises. Arranging companies into small-, medium-, and large enterprises in terms of number of employees may be misleading because countries, international organizations, and banks operate with their own definitions and numbers. For example, the European Commission defines micro-, small- and medium-sized businesses based on number of employees (staff headcount) and turnover in euros as showed in this table:

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	250	€ 50 m		€ 43 m
Small	50	€ 10 m		€ 10 m
Micro	10	€ 2 m		€ 2 m

Numbers extracted from the European Commission definition of SME as stated in the EU recommendation 2003/361.¹⁸

Confederation of Norwegian Enterprise (*Norwegian: Næringslivets Hovedorganisasjon, abbr: NHO*) divides small companies as those with 1-20 employees as small, 21-100 medium, and 100 large.¹⁹ As far as size goes, Norwegian companies tend to be smaller than their Russian counterparts. A company in Norway with over 100 employees would be considered a large, whereas in contrast the same company would be considered medium-sized in Russia. For example, the Norwegian concrete producer Ølen Betong AS has a total of 450 employees of which 25 are based in the daughter company in Murmansk.²⁰ The company would therefore be considered large according to most definitions. However, it is not uncommon for large-sized Russian companies to have over thousand employees which was the case during the Soviet era and still is, particularly in the defence and heavy industries as well as manufacturing sector.

1.5 Literature and source materials

Sources featured in this thesis are reports, articles, business guides, and interviews. Finding relevant literature and source materials to such a specific topic was time-consuming and strenuous. The search was hampered by the fact that literature detailing the history about Norwegian business is scarce and the few reports that exist are not easily found on the Internet by most search parameters. It was largely thanks to extensive searching, tips from personal contacts and informants, combined with a stroke of luck, that relevant literature emerged.

¹⁸ European Commission (2017). Retrieved from http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

¹⁹ Norges Hovedorganisasjon (2019). Retrieved from <https://www.nho.no/tema/sma-og-mellomstore-bedrifter/artikler/sma-og-mellomstore-bedrifter-smb/>

²⁰ Ølen Betong (2017). Retrieved from <http://www olenbetong.ru/about/company>

1.5.1 Primary sources

Primary sources of this thesis consist of reports, interviews, and news articles. The reports provided much of historical backdrop on Norwegian businesses and their activities in Northwest Russia.

“Den besværlige virkeligheten: Norske bedrifters erfaringer fra næringsvirksomhet i Nordvest- Russland 1990-2010”, and *“Economic Cooperation in the Barents Region”*. The former report was kindly donated by the Norwegian Consulate General in Murmansk in the autumn of 2017 during a student trip organized by the Barents Institute. *“Den besværlige virkeligheten”* written by Sherpa Konsult and published in 2012 – is based on first-hand knowledge from Norwegian business actors and details the history of the first commercial initiatives in Northwest Russia from the late 1980s until the year 2010. Following along the same lines as the current thesis, the report explores reasons why establishing business in Russia has been difficult from a political, cultural, legal, and social point of view. Lastly, the same report divides the presence of Norwegian companies in Northwest Russia in different time-periods which provided the idea of the current research question of this dissertation. However, the report only covers business development until the year 2010. Findings from my own research on this topic intends to remedy this by expanding further from where the report left off i.e. the timeline beyond 2010. Moreover, there are additional points that are not covered in the report such as geopolitical influences (Ukrainian crisis) and companies being accused of espionage (Ølen Betong). These issues came to prominence afterwards and are subjected to frequent media coverage regarding Norwegian-Russian relations.

“Muligheter for norsk næringsliv i Arkhangelsk fylke” was drafted by Norwegian-Russian Chambers of Commerce on behalf of the Norwegian Consulate General in Murmansk and published in 2009. As the name implies, the report focuses on Norwegian companies and business opportunities in Arkhangelsk Oblast. The report contains an overview of individual Norwegian companies as well as joint-ventures. Based on several unsuccessful business ventures, the authors of the report have concluded a series of measures for improving the conditions Norwegian businesses. Whereas the first report and primary source *“Den besværlige virkeligheten”* by Sherpa Konsult primarily focus on business establishments in Murmansk Oblast, this report is only concerned with Arkhangelsk Oblast. Therefore, the inclusion of these two reports should accordingly cover the two largest oblasts in Northwest Russia.

Interviews were crucial in obtaining invaluable first-hand information besides written sources. Informants consisted of business leaders and CEO's on one side, and representatives from government institutions such as Innovation Norway. A more detailed description about the interview process, method, informants, and question format is covered in the theoretical approach and research methodology sub-chapter.

In addition to reports and interviews, news articles also comprise an integral source of information to this thesis. The appropriately named article by Norwegian news broadcaster NRK: *"30 år på trynet i Russland"*, which can be translated in English as: "30 years of business blunders in Russia" – explains briefly the history of Norwegian businesses in Northwest Russia and is important to include here due the fact that a major Norwegian news agency has covered this topic. The article focuses particularly on the case of Ølen Betong and its CEO Atle Berge who was suspected of espionage by Russian secret service FSB and later received a travel ban into Russia for ten years.²¹ Other useful articles are those by High North News and the Independent Barents Observer based respectively in Bodø and Kirkenes. Both news agencies write extensively about topics related to the Arctic, Russia, and cross-border issues. Especially their articles pertaining to economic development in the North and the businesses opportunities there have contributed greatly as source materials of this study's last chapters.

1.5.2 Secondary sources

The inclusion secondary sources such as business guides, journals, government white papers, and reports on economic development in the Arctic, as well as other literature – are supplementary to the current thesis and research question. Secondary sources have particularly proved essential in answering one of the sub-questions: *"Why has it been difficult for Norwegian companies to establish a business in Northwest Russia?"*.

"Når Ivar møter Ivan: Å gjøre forretninger i Russland" written by Katerina Smetanina and published in 2014 – is a comprehensive business guide that thoroughly examines various

²¹ Abelsen Tarjei, Trellevik Amund, Strøm Stian (09.07.2016) «Et tilbakeslag for norsk-russisk næringslivssamarbeid». Published in NRK

reasons to the abovementioned question. It does so by compiling over 70 confidential interviews from Norwegian businesspersons and their experience in Murmansk and Arkhangelsk, as well using actual cases from the region. The author herself has extensive work experience in the Norwegian-Russian business sphere from the Norwegian Export Council (Norwegian: Norges Eksportråd), General Consulate in Murmansk, and from Norwegian-Russian Chambers of Commerce. The book's analysis of the past as well as current business situation from the perspective of Norwegian companies helped to add considerably amount of insightful content in chapter seven of the current thesis.

“Economic Cooperation in the Barents Region” is a report written in 2013 by Akvaplan Niva on request by the Norwegian Ministry of Trade and Industry – concerns regional economic cooperation between the different countries in the Barents region, including Norway and Russia. One of the authors – Rune Ratio from Kirkenes Næringshage, who is also an informant to in this study – sent the report after the interview. The report is a comprehensive mapping of various industry and business sectors represented in the region, financial output, export numbers, government funding, and other statistics. Compared to the primary report by Sherpa, the authors behind this report seek to explain the difficulties facing foreign companies operating on the Russian side of the border from a business perspective, including lack of public funding and government incentives.

“Prosjekt Rapport: Kartlegge norske bedriftsetableringer i Nordvest-Russland” written by Frode Stålsett from Rambøll Storvik AS – a business development consulting firm on request by the Norwegian Barents Secretariat together Innovasjon Norge and published in 2006. The report is a mapping of Norwegian registered companies in Northwest Russia, and is such, the only official survey of its kind. According to report, it is estimated that were around 80 Norwegian businesses operating in on the Russian side of the Barents-region in the 2000s.

“A History of the Soviet Union: From the Beginning to its Legacy” by historian Peter Kenez – chronicles the history of Russia from the revolution of 1917 to Putin's return of power in 2012. The book serves to establish the historical context of the phases and to explain how Russian economic policy influenced business establishments. Regarding the timeline of this thesis, only the last two chapters of the book from perestroika to the Ukrainian crisis in 2014 act as source material.

1.6 Theoretical approach and research methodology

The research question of the study concerns mapping and analysing different historical phases of Norwegian business initiatives in Northwest Russia and explain the influx and outflow of these companies. Determining the best suitable research-design to approach a research question is quintessential in this study.

Qualitative-research method is convenient for collecting and closely scrutinizing detailed information from historical events, personal stories, experiences, and opinions. Due to limited source materials about the topic, qualitative-research method was selected to remedy this shortcoming. The aim of the data-collecting effort was to gather as much information as possible from both written and oral sources. The information was then deducted to find the most relevant pieces of information that best suited answering the current research question.

For this study, *interview*, *case study*, and *comparative analysis* were selected as research methods as they yield disparate information of each historical phase. For example, a case study of a company in the 1990s may have traits that differ from a case study of a company in the 2000s (changes in the Russian legislations, corruption being less omnipresent, property laws in force etc). Multiple case-theory and business theory method are also logical research methods, although their application was discarded. The former requires more units (companies) for the research method be applicable – to which this study was unable to procure. The latter – business theory is more suitable for a thesis about economy or finance, not for the study of history.

1.6.1 Gathering information by use of interview

Conducting interviews is a viable method in obtaining first-hand information about a topic. Six interviews were gathered within a timeframe of roughly one year starting from May 2018 to February 2019. Informants were selected based on availability, relevancy, knowledge of the subject, and experience working with business in the private sector or public space aimed at Northwest Russia. Interviews were undertaken in Norwegian language through telephone, e-mail correspondence, and face-to-face meetings. All informants are Norwegian nationals and have experience with either business or project work in Russia. The option of including Russian informants to the study for the purpose of establishing also a Russian perspective was considered, though ultimately discarded. Primary concerns were finding relevant informants

to shed light on Norwegian experiences and their willingness to partake in the study. As a result, the current thesis and its subject matter only pertain to Norwegian businesses and their history. Questions were centred around challenges in operating as a Norwegian company in Russia, motives of establishing business abroad, cultural and language issues, and most importantly, if the informants could recognize development trends throughout the history of Norwegian business establishments in Northwest Russia. Furthermore, questions were formulated in a way that allowed the informants to speak more freely and open based on the informant's own opinions. All answers were recorded down as keywords. It is worth mentioning that the informants represent different sides to the topic in hand. Private companies (Tschudi Shipping AS, Barel AS) are representatives for the business sector, while state agencies and organizations represent the public. This is to ensure broader perspective to the subject matter. Lastly, in line with academic standard, informants were given the option of reviewing their own statements. Below is a list of all the informants:

Name of the informant	Company/organization	Position/role	Time of interview	Method of communication
Rune Rautio	Kirkenes Næringshage	Project manager	May 2018	Telephone
Kristin Høyby	Forskningsrådet (Research Council of Norway)	Special advisor	June 2018	E-mail correspondence
Geir Torbjørnsen	Barel AS	Managing / Sales Director	May 2018	Telephone
Felix Tschudi	Tschudi Shipping AS	CEO	February 2019	Telephone
Frode Mo	Innovasjon Norge Russland	Department manager	December 2018	Personal meeting (Moscow)
Heidi Andreassen	Innovasjon Norge Arktis	Senior advisor	January 2019	Personal meeting (Tromsø)

1.6.2 Case study

As research method, case study involves in-depth analysis of a study object (company) within its context in order to describe a phenomenon. In this study, each historical phase is presented with a case study of a company. For instance, Kimek AS is used as case to explain the contextual situation for Norwegian companies in Northwest Russia in the second half of 1980s. By applying case study, one can conclude that foreign companies which succeeded in the Russian market in this period were those that emulated Kimek's business strategy. Common criteria for success are *patience, cultural understanding, personal network, foresightedness, and long-term planning*. Disadvantage of case study is that one cannot conclude general assumptions based on the study of a single unit. Moreover, there are more factors that play into consideration when exploring a phenomenon.

2. First phase: The first business ventures in the USSR 1986 – 1991

The first influx of foreign enterprises in the Soviet Union since the communist takeover occurred in the mid-1980s and was only made possible due to the changing political climate at the time. In 1985 the younger Mikhail Gorbachev came to power in the Soviet Union, thus ending a long string of previous Soviet leaders who died in office due to a combination of old age and poor health. His policies of *glasnost* and *perestroika*, the former meaning openness and the latter economic restructuring – are now synonymous with this period. The latter years of the decade saw the Soviet Union experiencing mounting internal and external pressure which could no longer be effectively contained as before. Within the union's border was the matter of a stagnating economy which made living conditions for the population harder. In addition, there was growing resistance among citizens in the Soviet Union and within the union's republics, particularly in the Baltic states, against state censorship, the Stalin Purges of the 1920s and 30s, as well as the Soviet Union's signing of the Molotov-Ribbentrop pact with Nazi Germany prior to the outbreak of World War 2. Across the Eastern bloc, communist regimes in countries such as Poland, Czechoslovakia, and East Germany faced ardent opposition from dissidents who demanded liberal reforms, freedom of speech, and free elections. The Soviet leadership's decision under Gorbachev to not interfere in these countries internal affairs enabled them to topple their communist regimes. This chapter focuses on the impact of Gorbachev's policy of introducing certain market-style reforms and how it facilitated the influx/establishment of Norwegian companies in Northwest Russia.

2.1 Soviet Union under Gorbachev: glasnost, perestroika, and reforms

By the 1980s it became evident that the Soviet economy was in a poor state after several years of stagnation and low economic productivity which had begun in the Brezhnev period. Increased military spending, inefficiency in the agriculture and industrial sector, the centralized nature of state-planned economy, as well as the inability of previous Soviet leaders to address these issues, are often blamed as the causes of the stagnation. When Gorbachev assumed the Soviet leadership in 1985, he did so with the intent of reforming both the Soviet economy and political system while still adhering to communist ideals. For example, state-owned enterprises and plan economy were to be retained with only limited degree of market-style initiatives. The idea was to find a middle way between capitalism and

communism as a last attempt to realize a utopian theory.²² To solve the economic issues facing the Soviet Union, Gorbachev opted for the legalization of individual labour activities which introduced a private sector in parts of the economy.²³ Other economic reforms were aimed at reducing the amount of planning in the industrial sector, whereby giving increased autonomy to managers.

Gorbachev's vision of reforming the Soviet economy by applying both capitalistic principles of private ownership, and socialist economic theory akin to that of social democracy – was only marginally successful. The biggest obstacle to this were conservative figures in the Communist party who strongly opposed Gorbachev's efforts in reforming the economic system in fear that it would diminish their influence. There was also the paradox of such measures that was too incompatible with communist ideology. Despite resistance and setbacks in implementing economic reforms, institutional reforms to the openness-policy, however, were more feasible and had a more profound impact in terms of foreign business investment. The most significant gamechanger was the decision to softening visa restriction to outsiders. Foreigners could now travel into the country, but more importantly – they also brought with them knowledge and commercial ideals to a population not familiar with such ideas.

2.2 The borderlands are opening: arrival of the first Norwegian business pioneers

Norway and Russia share a 23-kilometre-long border in the north situated between the Norwegian county of Finnmark and Murmansk oblast in Russia. It was from here – the borderland areas of Norway, Finland, and Sweden, that the first influx of foreign business initiatives in Northwest Russia originated from. Companies and businesspersons based in Northern-Norway saw the Soviet Union's new policy of openness and economic liberalization opening a potential market for business opportunities. The fact that their large Russian neighbour was closed for most outsiders for several decades further intrigued many to venture beyond the border to seek out the possibilities there, whether it was for profit or adventure. It is difficult to estimate the number of Norwegian businesses in Northwest Russia during the perestroika era as there are no official documents nor statistics that may confirm this. One

²² Kenez Peter (2017), «A History of the Soviet Union: From the Beginning to its Legacy», p.258

²³ Bacon Edwin (2014), «Contemporary Russia», p. 131

businessman from Sør-Varanger – Kaare Ramberg was one of many who established a business in Russia for a while. He ran a bakery business in Nikel and Murmansk up until the rouble crack of 1998 which forced him to close the doors for his company. In an interview with NRK Ramberg provides a rough estimate: *“It was in 1988 during the heyday of perestroika that a bunch of us travelled from Sør-Varanger and inwards (Russia). There were around 100-150 companies present at the time. You would more often meet your neighbour than the local Russians”*.²⁴ The extent of Norwegian business development in Russia accounted in tens of millions of Norwegian crowns per year and nearly half of Norway’s export to Russia as whole went through Kirkenes.²⁵

The common characteristics these early business pioneers shared are that they were more driven by a fascination of Russia and the vast opportunities there, often venturing into the country without prior knowledge of Russian language and culture. They consisted primarily of small companies or individual entrepreneurs who were primarily motivated to a make a quick profit, rather than staying there in the long-haul. Therefore, many of these early companies focused their business model on selling consumer goods such as clothes, timber, boots, stockings, and as mentioned before bread, since there was a general lack consumer goods in Russia at the time. While many acted as vendors of Western products, some companies chose to target their business strategy towards specific sectors of the Russian economy such as the fishing and maritime industry in Murmansk and Arkhangelsk. At the time, the Russian fishing fleet was obsolete and in poor condition as a result of neglect and lack of maintenance. One such Norwegian company would especially take note of this.

2.2.1 Case study: Kimek AS

Present among the companies that operated with various commercial activities in Northwest Russia during the 1980s were those who focused on establishing themselves in the region on a more long-term basis. The company Kimek AS based in Kirkenes first entered Russia in 1986 with the Russian fleet in the Barents Sea as a main market, providing service for the mining

²⁴ Abelsen, Tarjei (25.09.2016) «30 år på trynet i Russland» published in NRK. Original Norwegian source: «Det var i 1988, da man hadde den store glasnosten gående, at vi var et hopetall som reiste fra Sør-Varanger og innover. Det var vel en 100–150 bedrifter som var til stede. Da traff du mer på naboen enn russere der borte, sier Ramberg». Translated by the author

²⁵ Sherpa Konsult (2012), p. 9

industry and the Norwegian-Russian trade cooperation.²⁶ Kimek continues to operate on the Russian market to this day. However, when first entering Russia, Kimek directed its business strategy in exporting everything ranging from Volvo cars, office equipment, fishing gear, engines, to even provide bulletproof vests to the local police force.²⁷

The motive behind Kimek's entry to Northwest Russia was influenced by the changing circumstances at the time. Kirkenes – the town Kimek is based at has been for a long time a mining community. When the mining industry became less profitable and closure seemed imminent, businesses and the community as whole had to look for other alternatives. As with many businesses in Kirkenes in the 1980s and 1990s, they turned to their business towards their neighbour. Kimek's business strategy when entering Russia in 1986 was to build friendly neighbourly relations based on mutual beneficial interests.²⁸ There has always existed a strong sense of intercultural understanding between Norwegians, Russians, and Finns in the Barents Region given their proximity and historical trade relations known as the Pomor trade. Kimek's long-term efforts across the border is a testimony to this.

Companies that did little effort in learning about their neighbour and Russia were the ones who failed. Trust is an important value when doing business, particularly in Russian society where the concept of trust and how to gain it differs vastly compared to in Norway. By working closely with Russian partners while showing respect to local cultural customs, Kimek slowly gained the trust and right acquaintances, and thus the company was able to offer its primary services to the Russian maritime industry.

Kimek is considered a prime example of a company that did many things right. In conclusion, the company therefore established a set of guidelines when doing business in Russia: trust, cultural understanding, personal relations, and lastly: offering products or specialized service, which is not available in the market or region. The last guideline is especially crucial when planning to stay in Russia for a long-term period.

²⁶ Kimek AS (2016) Retrieved from <https://www.kimek.com/about-us>

²⁷ Sherpa Konsult (2012), p. 9

2.3 Dissolution of the USSR

In the late 1980s it became clear that Gorbachev's reform policy was unable to save the regime from within. By the year 1991, the country was standing on its last legs and efforts by the Soviet leadership to preserve the remains of the union were in vain. Civil unrest, increasingly tougher demands of independence by Soviet republics, coupled with a collapse of the economy culminated to the dissolution of the Soviet Union on December 26th, 1991. The dissolution of the Soviet Union did not force an exodus of foreign companies. On the contrary, the newly established Russian Federation under President Boris Yeltsin were now pursuing a massive reform scheme to implement capitalism and market-style economy, thus opening the country further for foreign trade and business investment.

3. Second phase: Russia's turbulent transition to market economy 1991 – 1998

The second phase of Norwegian business establishments was initiated/started in the immediate aftermath of the dissolution of the Soviet Union. Like the previous decade, the 1990s are characterized by a mixture of uncertainty and optimism. The notable difference, however, was the change in the political leadership of Russia that now not only allowed but even actively encouraged foreign capital investment in the framework of market economic principles. Russia's foray into capitalism created a new market for business opportunities on a larger scale than before as private ownership and enterprise were now legal. Unlike the previous decade that still maintained elements of socialist plan economy e.g. price control, regulations, state ownership, the 1990s saw the abolishment of such policies. President of the Russian Federation, Boris Yeltsin – advocated that capitalism and market style economy to be Russia's only viable option to restructure the economy. As outlined by the Yeltsin administration, economic liberalization and privatization were to be implemented by means of "shock therapy" to ensure that the transition from plan economy to market economy go as flawlessly as possible.

The 1990's was a difficult time for many Russians with shortage of consumer goods being rife. Despite the country's turbulent economic state, many Norwegian business people were optimistic with their investment in Russia their motivation being driven by a sense of adventurism. Norwegians who were engaged with any form of commercial activity in Northwest Russia remember vividly the 1990s as a time of lawlessness, widespread corruption in the public sector, and country with a complicated bureaucracy. Nonetheless, the Russian government did indeed make progressive changes in terms of the country's legislation, introduction of a free market, improved Russian purchasing power, and lastly, an economic policy based on capitalistic principles. As such, the second phase markedly different from the previous one from the perspective of business.

In addition, Norwegian business activities benefited greatly with the establishment of the Barents Secretariat in 1993, whose goal is to facilitate cross-border cooperation between Norway, Russia, Finland, and Sweden. Although envisioned as the pillar of the secretariat's efforts in promoting Norwegian-Russian relations, business cooperation did not live up to the expectations. The aim of this chapter is to narrate Norwegian companies encounter with a

country undergoing shock therapy, privatization, and how this turbulent period shaped the future for other companies to come.

3.1 Shock therapy, privatization, and troubled economic times

The economic reforms carried out in the post-Soviet era by the Yeltsin administration, including the infamous term shock therapy, did not go the way the policymakers initially had planned. The core idea of economic reform was to distribute state assets in a just manner i.e. everyone working for a state-owned company would each receive a fair share. However, the rapid privatisation efforts led to some unintended results. One such effect was the unequal distribution of wealth among the Russian population, whereby the shift of wealth landed in the hands of a few individuals who would later become known as “oligarchs”. These individuals are also called the New Russians (from Russian: новые русские), managed to obtain vast of amount of wealth by arbitrary and criminal means.

The exact reason as to why the Russian leadership decided to pursue democratic principles and capitalism modelled on Western countries baffled foreign observers and academics alike. Kenez argues that, the Russian leadership’s intention, of transitioning to a new economic and political system somewhat resembled that of 1917 when the Bolsheviks came to power i.e. Yeltsin and his administration were also driven by a political ideology, in the case of capitalism.²⁹ Economists whom Yeltsin listened to, foremost Yegor Gaidar – who proposed the idea of shock therapy, were radical in their assessment of what do to with the old regime. The principle of the radical economists was simple: the old regime had to be destroyed at once and unrestricted capitalism had to be introduced.³⁰ Naturally, destroying a system is easier than introducing a new one, especially a system unbeknown to many, its principles, and how it works in practical terms. Foreign businesses looking to invest in Russia were met with problems such as corruption (which now became omnipresent most notoriously in the public sector), a legislation that was not adapted for private commerce e.g. it could not legally enforce contracts or property rights, and lastly, the notorious complicated Russian

³⁰ Kenez, Peter (2017), «*A History of the Soviet Union from the Beginning to Its Legacy*» Third Edition. Cambridge Press, p. 280

bureaucratic system. Other issues facing foreign businesses were the importance of trust, having personal contacts, and understanding the hierarchical nature of Russian society. On the opposite side, foreign companies are also to blame in failing on the Russian market due to poor planning, wrong cultural assumptions, and careless research into the market.

The extent of foreign businesses struggling in Russia has been documented in other academic works – with many of the above-mentioned issues again mentioned as obstacles to their business activities. Maria Varteressian’s master’s thesis from 2014 titled: *“Norwegian Business in Russia: What does it take for Norwegian companies to succeed with their internationalization to Russia?”* – covers similar issues regards to poor planning and lack of research into Russian culture. For example, chapter 24.3 gives a few reasons why companies have failed: “some of the reasons for failure are connected to expanding for the wrong reasons, impatience and wrong assumptions about the Russian market. Additionally, some fail due to lack of expert advice prior to investment, underestimating the costs of internationalization and deciding to become an international company too late”.³¹ The example used here to prove the case is the Danish bed bath and living company, Jysk. For instance, the size of the furniture sold by the company were too large for Russian middle-class homes.³² Even though this is a more recent case, many of the same aspects regarding foreign business establishment have persisted through time. Companies that overcame these obstacles were the ones who survived the second phase and went on to stay in Russia.

3.2 Case study: Tschudi Shipping AS

Common reasons for companies to enter the Russian market were the constant shortage of consumer products and other commodities not available in the country. In Murmansk and Arkhangelsk, some companies saw potential in exporting equipment to the Russian fish and shipping industry. While some companies were content with making a quick profit and then leave, others such as the Norwegian shipping company, Tschudi Shipping AS based in Kirkenes and Lysaker, saw long-term prospects in establishing a permanent business presence in Northwest Russia. Tschudi Shipping is part of Tschudi Group – a conglomerate which

³¹ Varteressian, Maria (2014). «Norwegian Business in Russia: What does it take for Norwegian companies to succeed with their internalization to Russia?» NTNU

provides services in shipping, logistical solutions, mining, and in the offshore industry. Nowadays, Tschudi Group is a major actor in Arctic development projects and the company has been working closely with Russian partners since the 1990s. This case study will primarily focus on Tschudi Shipping.

Although, Tschudi Shipping's history dates from all the way back to 1883,³³ the company's first business venture in Northwest Russia began around the year 1992/3.³⁴ According to the company's Chairman of the Board – Felix Tschudi, the company's interest in Russia and Eastern Europe began in the 1980s as the Soviet Union was undergoing major structural changes. On questioning his company's motivation to establish business in Russia, Felix Tschudi said: «I was enrolled in a business school in France in 1991 when it occurred to me that the Russian-Norwegian border is our most interesting border especially given the circumstances across the border at the time. We began our work with establishing a business in Northwest Russia around 1992/93. The plan was to learn as much about Russia as possible, and the opportunities of shipping and logistics there. This might take a while, maybe as much as ten years, because there were a lot restructuring going on in Russia at the time».³⁵

As with many other contemporary companies who wanted to establish a presence in Russia in the 1990s, Tschudi Shipping also had to start from simple beginnings. The company began selling food products and other consumer goods in the small industrial town Nickel located only 7km from the Norwegian border. After some time, the company expanded their range of products to refrigerators, heaters, and stoves, which eventually led establishing contacts and partners. In 1995 the company's set up a bakery in Nickel. Felix Tschudi describes the process as such: «We used a former bakery locale in Nickel which we renovated and installed a baking oven. The plan was to sell “skolebrød” to the local market. Despite support from the Norwegian state, establishing a business in Russia was not simple. For example, we had to get

³³ Tschudi Group (2019). Retrieved from: http://www.tschudigroup.com/page/131/Tschudi_Story

³⁴ Interview with Felix Tschudi - Chairman of the Board of Tschudi Group (Dated 07.02.2019)

³⁵ Interview with Felix Tschudi (07.02.2019). Original Norwegian text: «I 1991 gikk jeg på en business-skole i Frankrike da det gikk opp for meg at den norsk-russiske grensen er den mest spennende grensen vi har i Norge, særlig med tanke på forandringene som skjedde over grensen på den tiden. Vi begynte å satse i nordvest-Russland rundt 1992/93. Poenget var å lære mer om Russland, og om transport- og logistikk mulighetene der. Det ville ta lang tid, kanskje ti år, ettersom det var mye som skulle omstilles i Russland på den tiden». Translated from Norwegian to English by the author

20-30 different stamps and other permits from government agencies and public officials in order to start production». ³⁶ The bakery was a success – leading Tschudi to replicate the same business recipe in Murmansk as the company’s next ambitious business move in 1997. At the time, Murmansk was large city with a population of 444 000 in 1994. ³⁷ Opening a new upscaled bakery proved to be more difficult than expected. First challenge was finding a suitable location to house a larger baking oven and other appliances needed for production. Second, was learning everything the “hard way” as Felix describes it i.e. obtaining all the necessary permits, licenses, stamps, approvals, safety certifications etc. Eventually, Pomor Pekhar as the bakery was called, moved inside a building owned by SIVA (*Norwegian: Selskapet for industrivekst SF*). The bakery, which had around 110 employees and producing 15 000 units of bread each day at its height, performed so well, that it garnered attention by the Norwegian state and media as one of the most successful cross-border businesses in Northwest Russia.

In 1998, Pomor Pekhar alongside Norsk Hydro and a door-making company RossNor, were the only Norwegian companies in Murmansk that continued production inside the Russian market. The rouble crack of 1998 was especially destructive to Pomor Pekhar. The problem was that the bakery generated its profits in roubles which lost now lost 80% of its value making the rent more costly. To make matters more difficult, SIVA demanded that the rent to be exchanged in Norwegian crowns. The final stroke for the bakery was the lack of government funding, which forced the closure of the bakery in May 2000. ³⁸

Meanwhile, the underlying conditions for Norwegian companies in Northwest Russia towards the end of the decade shifted towards other sectors such as shipping and the oil and gas

³⁶ Interview with Felix Tschudi (07.02.2019). Original Norwegian text: «Vi brukte et tidligere bakeri som vi renoverte og installerte en bakerovn. Planen var å selge skolebrød til det lokale markedet. Til tross for støtte fra norske myndigheter, så var det ikke lett å etablere en forretning i Russland. Vi måtte for eksempel ha 20 til 30 ulike godkjennelser og stempler fra russiske myndighetsorganer før vi kunne starte med produksjon». Translated from Norwegian to English by the author

³⁷ Российский статистический ежегодник. (1994). Retrieved from: http://istmat.info/files/uploads/18276/stat_ezh_rf_1994_demografiya.pdf

³⁸ Stortingets spørretimespørsmål fra Ivar Østberg til utenriksministeren (18.05.2000). Retrieved from: <https://www.stortinget.no/nn/Saker-og-publikasjoner/Sporsmal/Sporretimesporsmal/et-sporretimesporsmal/?qid=19971>

industry. In the case of Tschudi Shipping, steel export and transshipment of natural gas from the White Sea to Kirkenes – became the company’s “new” breadbasket: «It was a pity that our bakery project went bankrupt, especially since it was doing so well. However, the preconditions in Russia were changing. Instead we looked at the prospects of using Kirkenes as an ice-free port for ship-to-ship cargo transfer (STS) of Russian tankers coming from Arkhangelsk. Around the year 1999/2000 we began exporting steel, and later transshipment of natural gas on LNG tankers». ³⁹ In 1997, Tschudi Shipping founded Kirkenes Transit AS with ambitions to develop Kirkenes as a harbour for ship-to-ship transfer of Russian tankers sailing to and from the Barents Sea. However, it was not until the year 2005 that the company had its breakthrough when it received its first STS order from Novatek. Towards the end of the 2000s, Tschudi Shipping established itself as one of the leading shipping and transport companies in the Arctic. Even though Tschudi Shipping’s presence in Russia continued after the timeline of the second phase i.e. beyond 1998, the year serves to mark an important event that had profound effect for all businesses in the country – the rouble crack.

3.2.1 Some reasons why Tschudi Shipping succeeded

The success of Tschudi Shipping measured in the company attaining a presence in the economic development of Northwest Russia, is contingent on the same principles established in the previous decade i.e. *personal contacts, cultural understanding, and long-term, and planning*. By analysing Tschudi Shipping business strategy, we can deduce how the company managed to establish itself as a major actor in the shipping and transport industry in the Arctic, and to a further extent, the oil and gas industry in Siberia.

Firstly, the bakery project was not intended to be the company’s primary commercial activity, but a means to an end i.e. to learn more about business opportunities in Russia. For a while, it was profitable selling bread in a country otherwise known for being one of the world’s largest producers of wheat and cereals. Because of privatisation as well as difficulties for manufacturers to adjust to market style principles, domestic food production in Russia

³⁹ Interview with Felix Tschudi (07.02.2019). Original Norwegian text: «Det var ergerlig at bakeriet ble slått konkurs, særlig med tanke på at det var et vellykket prosjekt. Men forutsetningene i Russland hadde endret seg, og istedenfor så vi på mulighetene å bruke Kirkenes som isfri havn til skip til skip-omlastning av russiske lastere fra fra Arkhangelsk. I 1999/2000 begynte vi med import av stål, og senere omlastning av naturgass fra LNG-tankere». Translated from Norwegian to English by the author.

stagnated. In the Kola peninsula there are stories of mining companies resorting to bartering in order to provide food to their workforce. Some of them even printed out their own currency to their employees which they could use to purchase food in the company's own store.⁴⁰

Regarding awareness to Russian culture and language, Felix says that it is advantageous to have prior knowledge of both: «I understand much about Russian culture, even when the Soviet Union still existed. Many of the same issues persist such as the vertical system in which decisions are made at the very top. It is a necessity to understand how Russian decision-making works if you want to do business there».⁴¹ In the mindset of most Russians, power is often concentrated to certain individuals. There has always been a powerful person at the top of the hierarchical pyramid, and he or she also personify this power.⁴² This kind of mindset is still observable in every layer of society and is common among the Russian population, particularly of those who grew up in the Soviet era. Knowing people and who to contact in the various hierarchical systems – is essential if one intends to obtain necessary permits, stamps, signatures etc. For example, Tschudi Shipping could use its network of personal contacts to ask for advice and help. Long-term planning and being forward-thinking are two crucial factors to why Tschudi Shipping managed to stay relevant on the Russian market.

3.3 Other Norwegian business ventures in the 1990s

Over a hundred companies and private-venture businesses from Norway were at some point present in Northwest Russia during the second phase of Norwegian business ventures. These companies had a varying degree of initial success, though most had to close business. Two noticeable characteristics of those companies who failed can be deducted from the list; 1) Smaller companies went bankrupt whereas medium-to-large companies survived, 2) With the

⁴⁰ Sherpa Konsult (2012), p.12

⁴¹ Interview with Felix Tschudi (07.02.2019). Original Norwegian text: «Jeg forstår mye av kulturen i Russland, også den gang Sovjetunionen eksisterte. Det er mye av det samme som går igjen som f.eks. det vertikale systemet der beslutninger tas høyt oppe. Man er nødt til å forstå hvordan beslutningsprosesser fungerer i Russland, hvis man skal lykkes med business der». Translated from Norwegian to English by the author.

⁴² Smetanina, Katerina (2014), «Når Ivar møter Ivan: Å gjøre forretninger i Russland», p.26. Original Norwegian source: «Det har alltid vært et handlekraftig menneske på maktpyramidens topp, og han eller hun har personifisert makten».

exception of Hydro Agri, companies with physical values in Russia were often victims of “*raiderstvo*” as in the case of RossNor and Skutvik Trebåter (later Selfa Arctic).

RossNor – was a joint Norwegian-Russian manufacturer of Scandinavian-designed window and door frames based in Arkhangelsk. Information about the company and its activities are only accessible by using an internet archive, for example Wayback Machine.⁴³ According to a report by Norwegian-Russian Chambers of Commerce (NRCC), in 1994 the company’s shareholders came to a disagreement – resulting in the Norwegian partners being forced out, and the remaining shares seized by their Russian partners.⁴⁴

Skutvik Trebåter AS – was a Norwegian manufacturer of wooden rowing-boats. In 1992 the company bought a shipyard in Arkhangelsk and began producing row-boats primarily for the Norwegian market, but also to Finland and the Netherlands.⁴⁵ In 2001, the Norwegian owner sold his shares to Selfa Arctic AS based in Trondheim. Afterwards, the new owner received threats and was forced to sell all the shares to a Russian based in Moscow.⁴⁶

Hydro Agri AS, renamed Yara International ASA in 2004 after the company was detached from Norsk Hydro as a separate enterprise – is a Norwegian chemical and fertilizer manufacturer. In the 1990s Hydro Agri operated a saw mill in Verkhnetulomsky from which they produced pallets for the Norwegian market.⁴⁷ Pallets and other wooden products were transported on lorries from Verkhnetulomsky to Kirkenes to be shipped out. Yara’s primary commercial activity in Northwest Russia is the manufacturing of fertilizers. By the end of the decade the company imported annually 520 000 tons of phosphate from the Kola Peninsula.⁴⁸ Yara and some members of its corporate leadership would later face bribery allegations over the company’s foreign business practice.

⁴³ <https://web.archive.org/web/20030619222803/http://www.rossnor.ru/>

⁴⁴ Norwegian-Russian Chambers of Commerce (2009), «*Muligheter for norsk næringsliv i Arkhangelsk fylke*», p.17

⁴⁵ Norwegian-Russian Chambers of Commerce (2009), p.17

⁴⁶ Norwegian-Russian Chambers of Commerce (2009), p.17

⁴⁷ Sherpa Konsult (2012), p. 11

⁴⁸ Jean-Hansen, Viggo, (2000), Transportøkonomisk institutt (TØI): «*Nyttekostnadsanalyse av å bedre seilingsleden gjennom Brevikstrømmen i Grenland havn*», p.2

Kimek AS – continued operating in Northwest Russia in the 1990s, albeit with a different business strategy. For example, Kimek, together with Kværner constructed a cold storage warehouse in Arkhangelsk.⁴⁹ Hotel Pechenga in Zapolyarny in Murmansk Oblast was renovated thanks to the efforts of Kimek. The company was also responsible of setting up a dental clinic in the same town. In addition, Kimek collaborated with Zvezdochka Shipyard (today part of JSC United Shipbuilding Corporation) in the construction of two trawlers «Yagri» and «Arkhangelsk».⁵⁰

Henriksen Shipping Service AS based in Kirkenes – specialize in port agency i.e. taking care of shipments, cargo, documents needed for anchoring, and other formalities on behalf of the client ship. The company first entered Northwest Russia in 1997.⁵¹ Current CEO – Arve Henriksen travelled extensively to Murmansk in the 1990s going from door-to-door to everybody who owned a fishing vessel.⁵² Nowadays, Henriksen Shipping receives most of their orders from the Russian fishing fleet. Much of the success of the company follows a similar pattern as other Norwegian companies that are doing well in Northwest Russia. These are: exercising understanding of Russian culture, establishing relations, building trust over time, and the importance of cooperation.

Relating to the sub-research question: “*Do larger multi-national companies such as Equinor, Norsk Hydro, Kværner, Yara, and Jotun fare better?*”, the second phase provides ample evidence that this is the case. Firstly, because larger companies can allocate more resources into market research, consulting services etc. More importantly, however, is that larger companies can afford to lose profit during the start-up process, whereas smaller companies have higher financial risks. Secondly, larger companies operate in different markets and its business strategy are more diverse. For example, Tschudi Group is involved in offshore, mining, and logistics. If a business venture in a foreign country fails (bakery business), a company may recover such losses elsewhere. In contrast, companies that go all in with

⁴⁹ Sherpa Konsult (2012), p.10

⁵⁰ Sherpa Konsult (2012), p.10

⁵¹ Stålseth Frode (2006), “*Prosjekt Rapport: Kartlegge norske bedriftsetableringer i Nordvest-Russland*”, Rambøll Storvik AS, p.14

⁵² Emberland Torkil, Åsheim Ole (12.11.2015), «*Arve reiste til Russland og banket på døra til alle som hadde fiskebåter. Nå har han sørget for levebrødet til 112 bedrifter*». Published in Nord24

establishing a permanent presence in Russia as in the case with RossNor, may face huge losses if the business is not successful. One exception of a small company that has performed well on the Russian market is Henriksen Shipping. The company has a staff of 11 employees.⁵³ The success of the company is attributed to its location in Kirkenes and that the company offers its services from there, as with Kimek.

3.4 The role of the Barents Secretariat in encouraging businesses

As we have seen in the introduction of this chapter, the idea of regional cross-border cooperation was conceived in the aftermath of the dissolution of the Soviet Union. Following the dissolution, Norway's then Minister of Foreign Affairs Thorvald Stoltenberg took the initiative in establishing an intergovernmental cross-border organization in the Barents Region. The idea was that through promoting people-to-people relations, cross-cultural understanding, and student exchanges, would contribute debunking the image of Russia and Russians as enemies. In 1993, cooperation in the Barents Euro-Arctic Region (BEAR), also referred to as Barents (Regional) Cooperation, was formally established when Norway, Sweden, Finland, and Russia signed the Kirkenes Declaration in the town itself. The overarching goals of the BEAR include amongst others: regional cooperation in cultural events, sports, infrastructure, people-to-people contact, and business development. It should be noted that both the terms BEAR and Barents Cooperation are generally used when referring to regional cooperation (*Norwegian: Barentssamarbeidet*) as a whole. The organization is represented separately in the member countries with the main office, the “*International Barents Secretariat (IBS)*” in Kirkenes. The Norwegian Barents Secretariat is also located in Kirkenes, in the same building as the IBS.

Cross-border business cooperation has always been one of the primary objectives of the Barents Cooperation as this was supposed to create employment in the region. The idea was to establish several “*flagship projects*” to serve as a model for Norwegian-Russian businesses. However, judging by previous experience and number of failed business projects – this area of cooperation has been the least successful, even with large amounts of Norwegian public funding. Altogether the amount of money spent on Norwegian cross-border

⁵³ Henriksen Shipping (2016). Retrieved from: <https://www.henriksen-shipping.no/staff>

business projects in Northwest Russia between 2003 – 2012 is 184 million NOK. Note that this figure is the total amount of public funding granted by the Barents Secretariat, Innovation Norway, and the Norwegian Ministry of Foreign Affairs.

One example of a flagship project that came into existence with Norwegian funding was the company RossNor. As mentioned, in 1995 the Norwegian company-owners were forced out of the country and its assets seized by their Russian partners. When the Norwegian owners settled the case in court and won, they received death threats and saw no alternative than to leave the country.⁵⁴ This phenomenon of Russians throwing their Norwegian investors and taking over the business as soon as public funding was involved became familiar of many of these flagship projects and in the fishing industry.⁵⁵ The reason why many of these joint Norwegian-Russian projects failed was that those involved were overly optimistic about business cooperation without fully grasping the challenges it would bring. This range from a lack of cultural understanding, the extent of corruption, an overall different business climate that Norwegians lacked experience in, and the sometimes-dishonest motives of partners and public officials.

Disappointment over the results of the failed Barents business projects is manifested in two official sources from the Norwegian Ministry of Foreign Affairs. The original documents with the quotes were not found on the Internet. Instead the source of the quotes is extracted from a book by Geir Hønneland. The first quote stems from a brochure about the Barents Cooperation in 1991: “We acknowledge that the expectations of good results in industry and investments were too optimistic from the beginning”.⁵⁶ The second source originate from the ministry’s official strategy for Russia (*russlandstrategi*) from 2000: “There is no doubt that we had in 1993 and the following years unrealistic hopes of the future economic cooperation in the Barents Region”.⁵⁷

⁵⁴ Hønneland, Geir (2011) «Barents-brytninger: Norsk nordområdepolitikk etter den kalde krigen», p.125

⁵⁵ Hønneland (2011), p.126

⁵⁶ Hønneland (2011) Original Norwegian text: «Vi ser at forventningene til gode resultater innenfor industri og investeringer i begynnelsen», p.127

⁵⁷ Hønneland (2011) Original Norwegian text: «Det er liten tvil om at vi i 1993 og årene etter hadde urealistiske forhåpninger til det fremtidige økonomiske samarbeidet i Barentsregionen», p.127

Although the Barents Secretariat helped to encourage business development, in the end most of the projects were forced to quit altogether. An article in *Dagbladet* published in late 1998 describes the situation for a Norwegian-Russian bakery as such: «...Pomor Plus has become a rather lonesome beacon in a string of failed Barents projects».⁵⁸ The companies that failed were small businesses which were more vulnerable of “*raiderstvo*” whereas larger companies such as Hydro and Tschudi Shipping, fared better and managed to establish themselves in Northwest Russia with little or no funding.

3.5 Russian financial crisis of 1998

By the end of 1998 the Russian economy deteriorated rapidly as a result of the state’s massive foreign debt, lack of productivity, and the scant purchasing power of ordinary Russian citizens. Capital flight whereby newly rich oligarchs transferred large amounts of the nation’s wealth in private bank accounts abroad – is also a major factor to the economic depression. The country’s GDP at the time was only 55% of what it had been in 1989. Moreover, internal political issues, rising crime rate, corruption, as well as the ongoing First Chechen War negatively contributed to the economic downturn. In an effort to stabilize the economy, the Russian government implemented import restrictions and the central bank devaluated the rouble currency. Consequently, this caused numerous foreign companies to leave the country. In Northwest Russia almost 50% of all cross-border trade were affected.⁵⁹ The second phase of Norwegian business ventures can be described as a period of experimenting for both business-seeking adventures and the native population. There were trial and errors, ups-and-downs, and learning the hard way for those who sought to establish a successful business. Although, capitalism brought its fair share of both good and bad things to Russia, most foreign companies including Norwegian ones, saw the light of day during this turbulent decade. Only after the political situation in Russia stabilized could it begin addressing all the problems that arose during the transition to market economy.

⁵⁸ Tonstand Per Lars (08.11.1998) «*Russiske tollere tok norsk bakeri*». Published in *Dagbladet*. Original Norwegian text: «... Pomor Plus, det norsk-russiske bakeriet som er blitt et nokså ensomt fyrtårn i rekken av mislykkede Barents-satsinger.»

⁵⁹ Sherpa Konsult (2012), p. 12

4. Third phase: Russia on the rise; oil boom and the Shtockman project 1998 – 2008

The new millennia in Russia is characterized by economic growth, improved standards, of living, political stability, and optimism. When Vladimir Putin became president in the year 2000, he promised among others to improve the economy which was still recovering from the rouble crack. Throughout the 2000s Russia experienced continuous economic growth in all key sectors. Between 1999 to 2008 the Russian GDP grew by an average of 7.6% per year.⁶⁰ High oil prices are credited as one of the main reasons to the economic boom in Russia. To put this in comparison, in 1998, oil was priced just above 10 US\$ a barrel; by 2008 it was 160 US\$.⁶¹ Furthermore, developments in the country's oil and gas industry greatly benefited the export-oriented nature of the Russian economy. For example, export of oil provided approximately 50% of the revenues of the state budget.⁶² Other factors which contributed positively to the economy were increase of domestic production, better purchasing power of the population, and foreign investment. Russia was an attractive country to invest in and international companies ventured into the country *en masse* to partake in the lucrative petroleum industry. Foreign companies were contracted by the Russian state to construct large-scale building projects such as gas pipes, oil and gas facilities, and infrastructure in distant regions in Siberia.

The third phase in the 2000s was the golden age for foreign companies, which saw the largest confirmed presence of Norwegian companies registered in Northwest Russia numbering at 80 different businesses.⁶³ This was largely due to the promising prospect of extracting gas from the Shtokman-field north of the Barents Sea which garnered considerable amount of attention in the Norwegian public and media. In Northern Norway, local governments had hopes that Shtokman would bring income to the region and provide employment to smaller businesses connected with the project. In 2008, the global financial crisis hit most economies, and in the process negating economic growth. In September 2008, Vladimir Putin, now prime minister, spoke of Russia as a safe haven in the global financial crisis.⁶⁴ In reality however, Russia was not completely shielded from the effects of the financial crisis. The slump in the Russian

⁶⁰ Bacon, Edwin (2014) «*Contemporary Russia*» Third Edition. Palgrave MacMillan, p. 141

⁶¹ Bacon (2014), p. 142

⁶² Kenez (2014), p. 304

⁶³ Stålseth (2006) Rambøll Storvik AS, p.3

⁶⁴ Åslund, Anders (02.2013) "How Russia Mismanaged the Financial Crisis". Published in the Moscow Times

economy was caused by its dependency on exporting oil and the industry was allocated more investments to the disadvantage of other economic sectors such as manufacturing. In 2009, the Russian GDP sunk by 7,8% and the value of its shares in the Moscow Exchange by 54%.⁶⁵ Furthermore, the global financial crisis also affected investment capabilities of foreign companies, limiting their ability to operate on the Russian market. The chapter focuses on how the Russian oil depended economy influenced the influx of the third phase of Norwegian business establishments in Northwest Russia. What has changed in the 10 to 15 or so years after the adoption of market economy and capitalism?

4.1 Economic progress under Putin

In December 1999 Boris Yeltsin resigned as president of the Russian Federation. His presidency and policies were widely unpopular with the population. In addition, Yeltsin suffered from health problems as a result of his frequent alcoholism and he often appeared drunk in public events. Vladimir Putin – who previously served as Prime Minister and director of the secret service FSB, became the acting president upon Yeltsin’s resignation. Putin formally succeeded Yeltsin as president of the Russian Federation in May 2000. The new president was presented with a formidable task of restructuring the country which had suffered from slow economic growth and political instability. Regional governors acted on behalf of their own interests, corruption and organized crime was rife, the rising influence of wealthy oligarchs, were just some of the issues which Putin had to address.

Putin maintained the principles of democracy, capitalism and market economy as his predecessor, albeit applying his own version of them. He emphasized that Russia should seek further integration to Western economic structures through membership in various international organizations such as the World Trade Organization. The most important reforms during Putin’s first term were the introduction of a 13% universal tax regardless of income, 2004 governmental reforms, and changes to the legislation to regulate and clarify activity in areas such as labour, bureaucratic oversight, customs codes, and land ownership.⁶⁶ All of these changes had a positive effect in the country’s investment possibilities in contrast to the chaotic and unorganized state in the 1990s.

⁶⁵ Sherpa Konsult (2012), p. 14

⁶⁶ Bacon (2014), p.142

Oil and gas have always played an important economic and political role in Russia. However, this notion was further reaffirmed in the years following the rouble crack. Under Putin's presidency, the country's oil and gas industry underwent increasingly state control through renationalizing by questionable means. For example, oligarch and CEO of the oil and gas company Yukos, Mikhail Khodorkovsky, was arrested in 2003 by Russian authorities based on charges of tax fraud. The company's shares were later divided among other state-owned enterprises. Gazprom also became state-owned after its leadership was replaced by people close to Putin's inner circle. State ownership of Gazprom shares increased to 50% by orders of Putin.⁶⁷ State interventions in private enterprises were part of a larger political campaign by Putin to reacquire former state assets and to confront the oligarchs. In particular, natural gas has become an important tool in Russian foreign policy in recent years. Knowing that countries in Western Europe, the EU, and the Asian markets have a growing demand on gas delivery to its energy sector, Putin has actively built the Russian economy around foreign dependency on gas. Several grand-scale building projects were initiated between the Russian government and international companies. Examples of these projects are Nord Stream, Shtokman, and Yamal LNG. Talks about developing Nord Stream, a gas pipeline from Vyborg to Northern Germany started in the 2000s and involves cooperation between the Russian government and German, French, and Dutch companies. Shtokman on the other hand saw more activity and interest from Norwegian companies.

Shtokman is one of the largest offshore fields in the world containing an estimated 3,9 trillion cubic meters of natural gas.⁶⁸ Throughout the 2000s, several major Norwegian companies such as Statoil, Norsk Hydro, and Kvaerner eagerly positioned themselves in Northwest Russia to partake in the development of the field. Although, Statoil was renamed Equinor in 2018, for the sake of historical context, the name Statoil will be used in the time period the company was referred to as Statoil or StatoilHydro. Statoil partnered up with Gazprom to secure exclusive rights in gas extraction. Statoil and the French energy enterprise Total S.A received respectively 24% and 25% of the project shares, while Gazprom owned the

⁶⁷ Hønneland Geir, Jørgensen Jørgen Holten (2013), «*Russisk politikk*», p.175

⁶⁸ Staalesen, Atle (10.2017) "*Gazprom hints comeback for Shtokman project*", published in The Barents Observer.

remaining 51%.⁶⁹ Smaller companies from Norway acted as sub-contractors and suppliers by opening local offices in Northwest Russia in preparation for the project. Sparebank Nord-Norge opened a local branch in Murmansk, while DNB bought Monchebank with the intention of offering loans to both Norwegian and Russian companies.⁷⁰

4.2 Case study: Barel AS

The third phase of Norwegian business ventures in the 2000s followed a similar pattern as the previous phase. They consisted mostly of traditional industries such as maritime and fishing companies. Petroleum companies and suppliers in the industry sector made their entry in the same decade and changed much of the business activities in Northwest Russia towards the Shtokman-project. Overall, the shipping, petroleum, and fishing industries have traditionally been the primary sectors of the Norwegian economy. This is reflected in the composition of Norwegian companies during much of the third phase. However, one company established in the 2000s outside Murmansk notably stands out from the others in terms of its niche business activity.

Barel Electronics AS is a Norwegian company located in Kirkenes with a subsidiary company in Murmansk. The company sells: electronic components, semiconductors, and lightning panels to ships, offshore installations, and the aerospace industry. The company's most important customer is Airbus who installs lightning panels such as exit signs, seatbelt on- and off, and emergency lightning on all its newest aircraft models. The main office of Barel in Kirkenes oversees research, design, automation, logistics, and product testing. On the Russian side in Murmansk, the production facility manufactures and assemble the products. Once the products are fully assembled in Russia, they are then transported back over the border to Kirkenes where they await international shipping. Even though, 95% of the company's production is manufactured in Murmansk, the products are exported to customers abroad with not a single customer on the Russian market.⁷¹ According to company CEO, Geir Torbjørnsen, the motivation to open a subsidiary across the border focused on lowering

⁶⁹ Harbo, Hilde (08.2012) «Stockman ble for dyrt for Statoil» published in Aftenposten

⁷⁰ Haugstad, Tormod (10.2008) "Milliardene flyter i Murmansk: Vill vekst lokker nordmenn" published in Teknisk Ukeblad

⁷¹ Interview with Geir Torbjørnsen (30.04.2018)

production costs to counter increasing competition from Chinese-made electronics in the early 2000s.⁷² This was achieved by taking advantage of the cheaper labour costs in Russia.

Barel's subsidiary company – known as BR Electronics (ZAO), was officially established on November 14th 2002, though production did not start until 2004.⁷³ Its range of products can be found among others on many of Airbus's newest aircraft models as emergency lights, exit signs, seatbelt on- and off signs. As with most of the previous case studies of companies, starting a business in Russia was no easy feat.

Starting a business in Russia in the early 2000s was a complex and disorganised procedure. Geir Torbjørnsen describes the situation as such: «When we first entered Russia in the early 2000s there were no federal legislation on bookkeeping⁷⁴, the government implemented new laws that were yet to be embedded in the country's legislation, and the tax system was constantly changing».⁷⁵ However, the business sphere in Russia at the time underwent drastic changes towards becoming better suited for international companies. For example, formal procedures in registering a business became more simplified and organized, new laws replaced contradicting ones, and accounting was increasingly becoming more digitalized. Hence modernization of the Russian economy and legislation largely played into favour for most foreign companies. When asked about the challenges Barel – as a Norwegian company has faced in Russia and how the company has managed to stay in a foreign country for a long time, Torbjørnsen explains it has to do with their way of thinking, understanding of cultural and language issues, and its close mutual partnership with its Russian partners: «We have a different way of thinking when we are in Russia. We follow everything according to the book as well as the local laws. For example, the company has a notice period of two weeks. Moreover, our company has good dialogue with the local Russian state apparatus such as border

⁷² Interview with Geir Torbjørnsen (30.04.2018)

⁷³ Barel (2019) <http://www.barel.no/br-electronics-15-years/>

⁷⁴ Annual recordings of financial transactions and accounting within an enterprise. Bookkeeping legislation can be translated to Norwegian as “*regnskapsloven*”

⁷⁵ Interview with Geir Torbjørnsen (30.04.2018) Original Norwegian source: «*Da vi først kom til Russland tidlig på 2000-tallet var ikke regnskapsloven på plass, myndighetene innførte nye lover som ikke var forankret i regelverket, og skattereglene ble stadig endret på*».

control, tax administration, etc.⁷⁶

4.2.1 Some reasons why Barel AS succeeded

Companies such as Barel AS were the kind of cross-border business projects which Thorvald Stoltenberg envisioned when he proposed the establishment of the Barents Regional Cooperation. In his 2014 speech of the official opening of Barel AS newest workspace, Stoltenberg quoted: “This is what I was dreaming of when we signed the agreement (in 1993)”.⁷⁷ Judging by most accounts, the success of the company in a foreign country with plenty of pitfalls follow more or less the same principles of other successful companies that came before such as *having personal contacts, foresightedness, understand cultural differences, and plan ahead in the long-term*. These aspects conform to a statement by the company’s managing director, Trine Gustavsen about how Barel has managed to thrive with its business endeavours in Murmansk: “The secret is patience, precision, prior research, good personal contacts, and to read between the lines. Also, one needs to be humble and not be instructive to others – it’s important to show respect to a different culture”.⁷⁸ Apart from these lessons, there are more factors that explain the success Barel’s success in Northwest Russia. Deducting these can explain how and why Barel distinguishes itself from other companies.

One important success factor is that the company has maintained a low profile over the years. The building which houses Barel’s subsidiary company is located on the outskirts of Murmansk – is inconspicuous and blends well to the greyish industrial looking buildings that dot the city landscape. Not many locals from Murmansk who travel with Aeroflot would imagine that Aeroflot’s inventory of Airbus aircrafts is built with components from this very building. In addition, the subsidiary company have made few media appearances except for a 2019 article published on a Russian news agency which allegedly claims that the production

⁷⁶ Interview with Geir Torbjørnsen. Original Norwegian source: «Vi har en helt annen måte å tenke på når vi er i Russland. Vi kjører etter boka og følger russiske lover. For eksempel har vi innført to ukers oppsigelsestid. I tillegg har vi god dialog med russiske myndigheter som f.eks. tollvesenet og skattemyndighetene.»

⁷⁷ Gramnæs Martin (07.11.2014) «Det var dette jeg drømte om». Published in Sør-Varanger Avis. Original Norwegian quote: «Det var dette jeg drømte om da vi signerte avtalen.»

⁷⁸ Tonstad Per Lars (28.06.2011). «Kirkenes-firma produserer i Murmansk: – Vi har lyktes mot alle odds». Published in Teknisk Ukeblad. Original Norwegian quote: «Hemmeligheten er tålmodighet, nøyaktighet, solid forarbeid, gode kontakter og en evne til å lese også over og under linjen. Og så må man være ydmyk og ikke belærende, det er viktig å vise respekt for en annen kultur»

facility in Murmansk also manufactures components for NATO aircrafts.⁷⁹ However, articles that are based on circumstantial facts (head of the executive secretariat of the Norwegian Ministry of Defense, Tone Skagen, made an official visit to Barel in Kirkenes) tend to garner the interest to a relatively small audience.

Unlike many Norwegian companies in Russia, Barel has not experienced any takeovers or attempts of it. One explanation for this according to Torbjørnsen is: “We are not interesting enough for others who would want to attempt a takeover. Our company has something exclusive that others don’t have”.⁸⁰ A different explanation could be that the “something exclusive” i.e. the company products and business practices are difficult to emulate by an outside company. For example, the design of the products is intricate, requires beforehand knowledge, and is tailored to a specific sector i.e. aeroplanes. Because of this, a takeover would be troublesome and not profitable even in the long-term.

Being in Murmansk brings other advantages as well. Firstly, the region’s industry consists primarily of shipping, fishing, mining, and other heavy industry. The Russian aviation sector particularly the major companies such as Sukhoi, United Aircraft Cooperation, and Ilyushin among others, are centred around Moscow Oblast’. These companies are primarily geared towards the domestic market. For Barel’s part, this means that the company is not standing in the way nor interfering in the interests of other competitors. Secondly, the lack of other direct competitors in Northwest Russia allows Barel to operate freely with full market share. The added benefit of not having competitors is that the company attracts less attention. For example, a competitor could exploit the weak rule of law in Russian society in ways to make life difficult to a rivalling business. Bribing corrupt officials in government, administration, or judiciary to enforce petty details in the legislation and other regulations in the convoluted Russian bureaucracy is a common method to undermine rivals. In one real life case, a Norwegian businessman based in Moscow owned a training studio and found himself in a serious disagreement with an aspiring oligarch. The latter wanted to use the plot of land in

⁷⁹ Ustrakhanov Russland (13.10.2019), «BAREL AS В МУРМАНСКЕ: Как угроза национальной безопасности». Published in www.segodaya.ru

⁸⁰ Interview with Geir Torbjørnsen (30.04.2018) Original Norwegian source: «*Vi er uinteressant for noen som vil prøve seg på en takeover. Bedriften vår har noe eget som ingen andre har*».

which the gym was built on to develop real estate. Frustrated that the Norwegian would not cave into his demands, the oligarch threatened to shut down the building's power and water supply through his "contacts".⁸¹ Such incidents often lead to court cases as happened with the Norwegian concrete company, Ølen Betong. After legally purchasing digging rights, Murmansk regional government attempted to "steal" it from Ølen Betong by finding loopholes in the law.⁸² Although this case was not orchestrated by rival company, it demonstrates how the system can be exploited for one's own interests.

Another important factor to Barel's success is simply the timing of the company's arrival to Murmansk. Although, Russian society in the early 2000s was not entirely free of the disorganisation and sense of chaos that plagued the country in the previous decade, the conditions for private enterprises gradually improved. New laws and regulations were gradually adopted, simplified, and most importantly, enforced. Dealing with customs service, labour laws, and the tax system became easier and more organized.

Since its establishment in Russia, Barel's leadership has focused on acting accordingly with the law, regulations, and tax system of the host country. The importance of personal connections has been vital to the company's success. The current managing director of the subsidiary company in Murmansk used to be the regional director of Kola customs service.⁸³ By having someone who understands the notorious rigid Russian customs service inside-out have saved both time and money. This is even more crucial when your business relies on regularly transporting goods across both sides of the border. In another case of Ølen Betong, the company bought reinforcement bars bundled into 50 units. One bundle contained one extra rebar which was enough for the Russians customs service to confiscate the lorry. They then demanded a "parking fee" of 100 000 roubles for the release.⁸⁴ This example serves to illustrate the sort of absurdity that one may experience when doing business in Russia. Employing the right people who knows how to deal with this as well as having the right connections, is major reason why Barel has succeeded where others have failed. On a further note, the company leadership has a strict policy of not resorting to bribery and corruption.

⁸¹ Dyrnes Steinar (18.02.2013), «*Hvordan lykkes i det russiske næringslivet?*». Published in Aftenposten.

⁸² Alexandersen Rune S., Olsen Rath Torgrim (23.04.2014), «*Norsk bedrift i Murmansk fikk rakett gjennom veggen*». Published in iFinnmark.no

⁸³ Tonstad Per Lars (28.06.2011)

⁸⁴ Hetland Tom (13.03.2012), «*Ølen Betong mot russisk byråkrati*». Published in Stavanger Aftenblad

According to managing director Trine Gustavsen: “There has been hints about corruption. But we have made it clear that our business is transparent, and we intent to remain transparent. Both the Norwegian and Russian tax authorities have investigated our accountings without finding anything unusual”.⁸⁵ The approach of “doing it by the book” is exceptional compared to the common notion that one must pay bribes in one form or another when doing business in Russia as was the case for some Norwegian companies that came before. Though, this strict policy has probably been advantageous for Barel in avoiding trifles with Russian authorities.

From a cultural understanding point of view, the company has always emphasized the value of understanding the local culture and way of thinking in its business model. After all, Barel has had almost two decades of experience in learning how to operate its business interests across different cultures. When questioned about the importance for companies on this, CEO of Barel Torbjørnsen said “Cultural understanding is alpha-and- omega. If you do not have the ability to adapt to Russian culture, then your chances of success are minimal”.⁸⁶ This is exemplified by the subsidiary company in Murmansk feels and runs as if it was a Russian company. For example, the entire staff including the local management are only made up by Russians. As such, communication inside the factory becomes more uniform which in return mitigates the risk of misunderstanding and mistakes if orders would have to be translated from Norwegian to Russian. As an extension of this, the workplace is free of personal conflicts and disagreements stemming from contrasting national cultural perceptions. A perfect example is the disparate interpretation of doing a mistake between a Norwegian and Russian in the workplace. Whereas a Norwegian employee will often willingly admit mistakes right away, a Russian person would go to great lengths to hide one. To Russians, making a mistake often feels like the end of the world, which of course is understandable when having lived in a society based on hierarchy and fear where one can expect harsh punishments for the slightest mistakes ... and when someone first commits a mistake, it will take a while and several exposures and confrontation before the person will admit it, often

⁸⁵ Tonstad Per Lars (28.06.2011). Original Norwegian source: «Det har vært signaler om korrupsjon. Men vi er tydelige på at vi handler hvitt, for vi skal ha rent mel i posen. Både norsk og russisk skatterevisjon har gransket våre regnskaper, og aldri hatt noe å bemerke»

⁸⁶ Interview with Geir Torbjørnsen (30.04.2018) Original Norwegian source: «Kulturforståelse er alfa omega. Hvis man ikke har evnen til å tilpasse seg russisk kultur, så har man små sjanser for å lykkes».

reluctantly.⁸⁷ What this means for Barel is that the subsidiary company can avoid such conflicts altogether since the employees know what to expect when a conflict arise and how to deal with it accordingly. In many business cases featured here of Norwegian companies that performed unsuccessfully in Russia, it was often the Norwegian CEOs who failed to understand their Russian counterparts. Although, being a homogenous daughter company or subsidiary is not a reason enough to explain why Barel has fared better than others. However, it does have its advantages such as the above mentioned. Other examples of how the company has adjusted to the local work culture is by following is by following Russian labour laws, including

4.3 Recession in Russia and the 2008 global financial crisis

In September 2008 Russia was again hit by a recession, albeit less punishing compared to the 1998 Russian financial crisis. The seriousness of the crisis is evident by the stock markets of the Russian Trading System and Moscow Interbank Currency Exchange dropping down to 9,3% and 8,7% respectively.⁸⁸ However, the major difference was that, unlike the economic situation ten years ago, this time the Russian state had accumulated large currency reserves from its oil and gas exports in different government funds totalling around \$600 billion.⁸⁹ The primary function of these funds was to counterbalance deficits in the national economy. Around a third, \$200 billion – were given to banks and large companies in an effort to save them from bankruptcy.⁹⁰ Nonetheless, the recession was enough to stir genuine concerns about the Russian economy, fear of unemployment, decrease of living standards, and meagre economic turnovers. The financial crisis had especially a negative effect on foreign companies who were worried about the Russian state could intervene and potentially seize key assets in businesses in the petroleum and manufacturing sectors. These concerns were further reinforced by the 2008 Russo-Georgian War. Geopolitical tensions between Russia and the West over the conflict fuelled the belief that Russia would economically isolate itself

⁸⁷ Smetanina, Katerina (2014) p.53. Original Norwegian source: «For mange russere kan det å gjøre en feil oppfattes som verdens undergang, noe som er helst forståelig når man har levd i et hierarkisk og fryktbasert system, med harde straffer selv for de minste forseelser... og hvis man først gjør en feil, må det ta lang tid, med gjentatte avsløringer og konfrontasjoner før man egentlig innrømmer sine feil – helst motvillig.»

⁸⁸ Paust Thomas (16.10.2008) «Forsøker å kvele finanskrisen». Published in TV2

⁸⁹ Stratfor (15.06.2009) «The Recession in Russia». Published in www.Stratfor.com

⁹⁰ Holm-Hansen Jørn (27.03.2018) «Russlands samtidshistorie». Published in Store Norske Leksikon. Retrieved from: https://snl.no/Russlands_samtidshistorie

and cut ties agreements with major business partners. Amidst these worrying prospects, foreign investment declined by 30 percent year-on-year in the first quarter of 2009.⁹¹

There are several reasons for the 2008 Russian recession. The dramatic drop of oil prices from \$147 in July to below \$50 in November the same year is considered to be the main reason for the recession.⁹² Oil export throughout the 2000s was blessing for the Russian economy, but also a curse when the country experienced the flipside of low oil prices. The financial crisis revealed Russia's vulnerability in its overreliance on exporting commodities such and oil and gas. Moreover, it displayed the lack of diversity in the Russian economy. Lastly, the 2008 global financial crisis also affected the economies of most major countries, resulting in high inflation, debt, and reducing their purchasing power. Furthermore, it showed that the Russian economy which had become increasingly interconnected, was also susceptible to fluctuations in the global economy, particularly when the prices of raw materials shift. Despite the economic backlashes, the Russian economy fared better compared to other countries, largely thanks to the state's effort in accumulation foreign reserves from oil and gas export.

In northwest Russia, Norwegian companies were still hoping that the "Shtokman effect" would sooner or later come to fruition. After all, the third phase consisted of numerous companies wishing to partake in what would have been an immensely lucrative business venture. Even before the Russian recession of 2008, the likelihood of Shtokman becoming a reality was already questioned by academics, technical experts, and representatives in the petroleum companies. In 2007, expert on Russian affairs Arild Moe predicted that the Russian government together with Gazprom, which owned all majority shares in the project, would abandon Shtokman altogether and instead focus on onshore gas extraction on the Yamal Peninsula.⁹³ Moreover, Gazprom's decision to postpone the project until 2012 as well as excluding foreign partners dealt a blow to the Norwegian business presence in Northwest Russia.⁹⁴ Combined factors such as technical difficulties, Gazprom's inexperience in offshore gas extraction, high costs, as well as the timing of the financial crisis, forced the project to

⁹¹ Stratfor (15.06.2009)

⁹² Harding Luke (20.11.2008) «*Russia close to economic collapse as oil price falls, experts predict*». Published in the Guardian

⁹³ Nordlys (15.03.2007), «*Tror ikke på Shtokman*». Published on Nordlys.no

⁹⁴ Nordlys (15.03.2007)

close indefinitely. Despite all of this, many of the companies still lingered on the hopes that either Shtokman would resume, or that other large-scale industrial projects might present themselves.

5. Fourth phase: Economic recession, Ukrainian Crisis, and exodus 2008 – 2014

Russia experienced a decline in growth throughout 2008/2009 because of the combined factors of the global financial crisis and sharp drop in oil prices. However, thanks to government's proactive anti-crisis response, the Russian economy managed to slowly recover to previous levels. To give a comparison: the Russian GDP shrank by 7.9% in 2009, the biggest decline since the collapse of the Soviet Union.⁹⁵ By the first quarter of 2010, Russian GDP experienced a growth of 2.9%.⁹⁶ The timely rise of global oil prices the same year was a lifesaver to the export-oriented economy. Despite the setbacks, the energy sector remained the country's most important industry. Drafts for new industrial development projects in Siberia and the Russian Arctic were still prioritized. Foreign companies were hoping to capitalize on this. Most of the development projects in this area were in the Russian Arctic region. Norwegian petroleum enterprise Statoil showed keen interest in partaking given the company's experience from extracting natural gas in Arctic conditions from offshore facilities in the Snøhvit-field outside Hammerfest.

This phase marked both the departure and comeback of Vladimir Putin as president of the Russian Federation. In his departure as the head of state, Dmitry Medvedev succeeded his predecessor as president, while Putin served as Prime Minister. To foreign companies and observers, Medvedev represented a new shift in Russia's economy. His modernisation programme aimed at lessening the country's dependency on oil and gas by creating a more diversified economy.

The fourth phase of Norwegian business establishments in Northwest Russia was a continuation of the last phase i.e. it was prompted by the prospects of oil and gas extraction in the Shtokman-field. Despite the global financial crisis in 2008 and the drop of the price of oil, there was still a degree of shared optimism among the already existing Norwegian companies, but also newly arrived ones, that Shtokman would become a reality. Norwegian companies in Northwest Russia reached its apex in 2008. In the following years towards 2014, their presence began to dwindle. Despite the interest and investments, Shtokman was shelved

⁹⁵ Abelsky Paul (14.05.2019), «*Russian GDP Grew 2.9% Last Quarter on Stimulus, Oil*». Published in Bloomberg

⁹⁶ Abelsky Paul (14.05.2019)

indefinitely as it was deemed to be too costly and technically challenging to extract gas 555 km from shore at sea depths of 350m.⁹⁷

In 2012, StatoilHydro pulled out of the project stating that it was no longer profitable.⁹⁸ The departure of Statoil and suspension of Shtokman had an everlasting effect on all Norwegian business activities in Northwest Russia. Businesses now lost their bread and butter. Sub-contractors and suppliers in the petroleum industry were the first to depart as they found it difficult to readapt as their services are mainly geared towards a specific sector. Furthermore, the 2014 oil price decline had devastating effect on the global petroleum industry. For Norwegian companies in Russia this meant it was suddenly no longer profitable to develop industrial projects abroad. Companies such as Statoil were forced to lay off hundreds of employees in order to save profits. Russian investment in their own oil and gas projects were suspended, and many of the already planned projects were delayed. To make matters even worse, Russian annexation of Crimea and subsequent military involvement in Eastern Ukraine in 2014, prompted the EU, USA, and other Western countries to impose economic sanctions on Russia. The Norwegian government introduced restrictions for Norwegian enterprises in exporting petroleum-related technology and equipment to Russia, thus practically ceasing all business ties within this industry. Russian countersanctions on all import of Norwegian fish and dairy products further damaged trade relations between the countries. The resulting political situation led to a large exodus of not only Norwegian companies, but also other Western companies, leaving Russia.

5.1 Russia under Medvedev 2008 – 2012

After two terms as president of the Russian Federation starting from 2000, Vladimir Putin had to leave the presidential office in 2008 in accordance to the constitution. The Russian Constitution from 1991 allows a president to hold the office for two consecutive four-year periods. Dmitry Medvedev, who served as Prime Minister under Putin, was elected as the next president. The former president was redelegated the position as Prime Minister, although it is commonly assumed that Putin still played a major role in dictating the nation's course throughout Medvedev's presidency. When Medvedev became the new leader of country, the

⁹⁷ Equinor (2019), www.equinor.com/no/news/archive/2004/06/04/FactsAboutTheShtokmanField.html

⁹⁸ Mogård, Lars Egil (06.2015) "Nordnorsk gassdrøm opp i røyk ". Published in NRK

situation in Russia was completely different compared to the challenges Putin was left with after Yeltsin's legacy.

During his term, President Medvedev carried out many of the same policies and goals of his predecessor which included promoting economic growth, encourage cooperation with foreign countries, reform policies, anti-corruption efforts, and generally improving the living standards for Russian citizens. The most noticeable departure from the economic policies of his predecessor was the focus on a large-scale modernisation programme to lessen Russia's dependence on oil and gas, reduce state interference, and create economic diversity, and innovation. Putin's stabilization policy had to go in favour of private initiatives as quoted by Medvedev during the 2011 St. Petersburg International Economic Forum: "The Russian economy should be dominated by private investors and entrepreneurs".⁹⁹ An example of new innovations driven by private actors were Russia's growing IT and telecommunications sector.

Compared to his predecessor, Medvedev is regarded as being more liberal and Western-orientated. He embarked on a policy of cooperation with the West, as well as reconciling with former Eastern bloc countries. The Demarcation Agreement between Norway and Russia whereby the two countries recognized each other's maritime borders in the Barents Sea is an example of Medvedev's foreign policy approach. Furthermore, the agreement also underlined more cross-border business cooperation between Russia and Norway which includes collaboration in the Barents Region.

5.2 Case study: Ølen Betong

In the early inception of the fourth phase of 2008 – 2014, it was still too early to foresee how the development of Shtokman would unfold. However, it was expected that there would be increased economic activity on the Russian part of the Barents Region. In addition to large petroleum firms being involved in several development projects in Northwest Russia, there was also need for other companies with different kind of expertise for such projects to be built. Ølen Betong was one such company. In less than one decade, Ølen Betong has managed

⁹⁹ Mohr Bernhard (17.06.2011) «*Tar kraftig oppgjør med Putin-politikk*». Published in E24

to become one of the most successful Norwegian business ventures in Russia. The story of Ølen Betong is a tale of success and uncertainty. To begin with, the company made considerable profits in Murmansk in a time when Norwegian companies left the country due to tougher economic times. Even when the Shtokman project was put on hold, Ølen Betong opted to remain in Northwest Russia and instead anticipate partaking in other future projects. According to company CEO and head of the Murmansk filial, Atle Berge, Ølen Betong signed its most lucrative contract ever for delivering concrete pile caps to the Yamal LNG plant project in Nenets Autonomous Okrug in Russia. Because the soil of which the onshore gas facilities is to be built on are unstable due to tundra, pile caps are inserted onto the ground to establish a strong foundation that can support the weight of the structure. The exact figure is disclosed but according to Berge, the contract is worth several million NOK.¹⁰⁰ Even though the contract's exact worth is disclosed, the company made a profit of over 600 million NOK in 2013.¹⁰¹ Ølen Betong has 30-40 local employees, but have had over 100 people involved in its high-demanding projects.¹⁰² At one time, this effectively made the company the largest Norwegian employer in Murmansk Oblast' in terms of number of employees.

As suggested by the name, the company originally hails from a small inland town in Western Norway named Ølensvåg. Apart from producing concrete mass, the company also produces ready-made concrete elements for use in constructing of oil and gas facilities. Ølen Betong's first foray in delivering concrete elements to petroleum-related projects was in the 1980s when the company partook in the construction of Kårstø – an industrial facility plant in Tysvær.¹⁰³ In 2002, Ølen Betong headed north to Finnmark county to supply concrete elements to upcoming LNG development projects in the Snøhvit-field outside Hammerfest.¹⁰⁴ After the project was completed, Ølen Betong began sizing up for potential other industrial development projects in the Barents Region. This led the company to buy a plot of land in Murmansk in late 2007 with the intention of setting up a local production facility the next

¹⁰⁰ Alexanders S. Rune (19.09.2014) «*De skal levere betong for flere hundre millioner kroner til Russland*». Published in Nord24.no

¹⁰¹ Alexandersen Rune S, Olsen Rath Torgrim (23.04.2014)

¹⁰² Ølen Betong "Historikk". Extracted from: <http://www olenbetong.no/om-oss/historikk>

¹⁰³ Ølen Betong "Historikk".

¹⁰⁴ Ølen Betong "Historikk"

year.¹⁰⁵ The land itself is 8 hectares, total surface area of the interior of the facility is 1000 square metres, and contains all heavy equipment needed for cement production, as well as lorries used to transport the products.¹⁰⁶

In the beginning of Ølen Betong's business venture in Northwest Russia, the company was given supply contracts of concrete products related to infrastructure projects in the region, including the construction of a 15 kilometre motorway, and building a brand new harbour.¹⁰⁷ One of the newest additions to the city of Murmansk is a new shopping mall. Murmansk Mall is the largest and most modern shopping mall in the city was built with concrete elements from produced from Ølen Betong's facility located on the outskirts of the city.¹⁰⁸ However, the company's breakthrough took the shape of supplying concrete pile caps for the Russian company Novatek in its Yamal LNG project on the Yamal Peninsula in Nenets Autonomous Okrug. Yamal LNG is joint venture between the Russian Novatek (50,1%), French Total S.A (20%), and Chinese CNPC (20%) and Silk Road Foundation (9.9%).¹⁰⁹ Both Total S.A and CNPC were previously attached to Shtokman in which they also were shareholders. Estimated costs for Yamal LNG is at 27 billion US dollars.¹¹⁰

Despite the successful business endeavour, in June 2016 a sudden event dramatically changed the sunshine story of the company. The Russian security service, FSB, charged Berge for espionage, resulting in him being issued an entry ban of entering Russia for a 10 year period.¹¹¹ At the time, Berge was the head of Ølen Betong's department in Murmansk when he was stopped at the border trying to enter Russia. Despite becoming a *persona non grata*, Berge still manages his business remotely from Kirkenes as of 2019, though the future of the

¹⁰⁵ Hetland Tom (13.03.2012)

¹⁰⁶ Alexandersen Rune S, Olsen Rath Torgrim (23.04.2014)

¹⁰⁷ Alexandersen Rune S, Olsen Rath Torgrim (23.04.2014)

¹⁰⁸ Alexandersen Rune S, Olsen Rath Torgrim (23.04.2014)

¹⁰⁹ Total S.A (2019) «YAMAL LNG: THE GAS THAT CAME IN FROM THE COLD». Extracted from: <https://www.total.com/en/energy-expertise/projects/oil-gas/lng/yamal-lng-cold-environment-gas>

¹¹⁰ Trellevik Amund (13.05.2015) «Norsk betongbedrift øker i Russland: Må utvide produksjonen». Published in NRK

¹¹¹ Abelsen Tarjei, Trellevik Amund (08.07.2016) «Spionmistenkt i Russland – norsk betonggründer utvist i ti år». Published in NRK

company in Russia remains uncertain.

5.2.1 Some reasons why Ølen Betong succeeded

The case Ølen Betong is unusual compared to other successful Norwegian companies in Northwest Russia featured as case studies in this study. First, the company has invested large amount of physical value through its production facility in Murmansk. Most business guides focused on doing business in Russia particularly specify that attaching too much physical value in the country can make foreign companies more susceptible to takeovers or victims of bribes. Unlike Barel AS which uses a different name for its daughter company (and thus makes it less obvious as a foreign company), Ølen Betong in Murmansk uses the same name. This move raises more awareness for a medium-sized company to be target for a takeover. Being successful and earning a lot of money is noticeable in Russia. Therefore, one must expect to make a few enemies along the way. That is likely the case for Berge whose car was set on fire and his office building hit by a homemade rocket.¹¹²

Second, Ølen Betong has encountered its fair share of feuds with the regional Russian authority, the country's bureaucratic system, and toll authorities. For example, Ølen Betong went to court seven times against Murmansk county because the latter attempted to "take back" a license worth 10 million NOK which the company bought from an auction.¹¹³ The case went as far as going to the Russian Supreme court, the second highest tier in the Russian judiciary, before the company finally won the case.¹¹⁴ One issue the company has to deal with is customs officials enforcing additional costs in the form of "added taxes". As a direct consequence of decreased import, the salaries of customs officials have been reduced by 60 to 70 percent which they compensate by deliberately letting goods stay in the customs warehouse so that the rent will increase for each day.¹¹⁵ Although, it is not uncommon for foreign companies to experience corruption when dealing with the Russian toll authorities, the difference is that such issues are still occurring despite current efforts by the Russian state to make these matters more transparent.

¹¹² Alexandersen Rune S, Olsen Rath Torgrim (23.04.2014)

¹¹³ Hetland Tom (13.03.2012)

¹¹⁴ Hetland Tom (13.03.2012)

¹¹⁵ Løhren Maren (18.12.2014) «*Slik rammes norske bedrifter i Russland*». Published in E24

Despite facing challenges including having the CEO banned from entering Russia, how did Ølen Betong succeed in Russia. Does Ølen Betong share any similarities of already mentioned companies included in the case studies? Lastly, what are the consequences of being accused of espionage have for other Norwegian companies in this or the next phase? Several attempts were made to contact Atle Berge or other representatives for Ølen Betong for an interview for this study without receiving a response. The analysis of the company's performance in this study is entirely based on open sources from news articles.

Ølen Betong shares the same strategy as Kimek and Barel in terms of *long-term planning* and *foresightedness* – key factors of these companies's success in Northwest Russia. Back in in 2006 when Snøhvit was nearing completion, the company leadership began exploring for other business opportunities in the Barents Region. They acknowledged that there would be increased economic activities in the region's oil and gas sector, particularly in the Shtokman-field. Moreover, the largest and most expensive development projects would be on the Russian side of the border. As early as 2008, an article by Næringsforeingen Haugalandet wrote about Ølen Betong's plans in Northwest Russia: "The opportunities (in the Arctic) are huge; Ølen Betong's leadership, Russian bureaucrats and politicians all know it. They understand that the region will need new housing, roads, tunnels, bridges, and on- and offshore facilities when Shtokman is to be realized within the next years."¹¹⁶ *Long-term planning* and *foresightedness* have benefited the company's business in another way. While companies such as Statoil and other Norwegian companies focused primarily on Shtokman, the leadership of Ølen Betong had set its target on other upcoming projects. When the probability of Shtokman became less likely and later shelved, these companies lost their main source of income. Even though Ølen Betong lost out of this deal, the company was quickly to adapt its business elsewhere. In this case, Yamal LNG and its adjacent infrastructure projects became the next livelihood for Ølen Betong. Unlike petroleum firms, a concrete producing company is more versatile in the sense that the business can be adapted to other business areas such as infrastructure and construction.

¹¹⁶ Næringsforeningen Haugalandet (25.09.2008) «Rullett eller russisk eventyr?». Extracted from: <https://nforeningen.no/rullett-eller-russisk-eventyr/>. Original Norwegian language source: "For mulighetene er enorme; det vet både ledelsen i Ølen Betong og russiske byråkrater og politikere. De vet at regionen vil ha behov for nye boliger, for nye veier, tunneller, bruer og onshore- og offshorekonstruksjoner når Shtockman-utbyggingen kommer i gang om noen år."

Another contributing factor is market need to which Ølen Betong found the soft underbelly of. The company built a modern and efficient production plant from the ground up in Murmansk equipped with modern concrete producing technology and automated systems. Although there are plenty of other local competitors doing the same thing, the thing that separates them is efficiency. When entering production in September of 2008, the production plant could produce 50 000 tonnes of concrete per year, which is half of the capacity of the whole region of Murmansk.¹¹⁷ The high-level of efficiency required a staff of only 15 local employees and a team of 4 specialists from Norway.¹¹⁸ All of the large industrial development projects in the region require an enormous amount of concrete. In addition, there is also need for specialized concrete elements such as mattresses, pile caps, reinforced concrete, and other concrete elements that can be shaped to fulfil a requirement. Therefore, the timing of Ølen Betong came at a time when the demand for such products was high.

Fulfilling a market need is one thing, having the right experience is another. By the time of Ølen Betong's arrival to Northwest Russia, the company already had a proven track record of producing concrete in Arctic conditions from its time in Hammerfest. In Northwest Russia, the company has a reputation of producing durable and high-quality products. For example, some concrete elements are designed in mind to withstand sub-zero temperatures found in the region. By using computer software and calculations, Ølen Betong in Murmansk can experiment with different materials to create the best suited concrete composition necessary to satisfy client needs.¹¹⁹ Novatek, Ølen Betong's main buyer, expressed they more than pleased that the Norwegian company managed to deliver the total of 150 000 tonnes of concrete elements in the form of pile caps for the Yamal LNG project.¹²⁰ During production, Novatek demanded larger orders, resulting in an increase of 35-40% of the original order.¹²¹ Ølen Betong managed this by keeping production up around the clock six times a week, as well as allowing production of concrete throughout the winter season.¹²² Novatek originally granted

¹¹⁷ Næringsforeningen Haugalandet (25.09.2008)

¹¹⁸ Valamina Yulia (12.09.2008) «Норвежский бетон для мурманских строек». Published in Murmansk Vestnik

¹¹⁹ Valamina Yulia (12.09.2008)

¹²⁰ Abelsen Terjei (19.06.2016) «Håper på ny milliard-kontrakt med russisk gass-gigant». Published in NRK

¹²¹ Ølen Betong (19.02.2015) «ØKER PRODUKSJONEN I MURMANSK». Extracted from: <http://www.olenbetong.no/nyheter/oeker-produksjonen-i-murmansk>

¹²² Ølen Betong (19.02.2015)

the same contract to two concrete suppliers with Ølen Betong being one of them. However, the latter outperformed the other and Ølen Betong was given more orders as a reward.¹²³ The other reward, and arguably the more advantageous to have in the long-term is *trust*.

Previously featured case studies of companies such as Tschudi Shipping have thrived in Northwest Russia thanks to establishing trust. Besides having experience and the necessary skill set, Ølen Betong has also shown to be true to its business commitment, and thus have gained the trust of many of the larger Russian companies.

5.3 What happens with Ølen Betong?

A CEO of a foreign company in Russia being accused for espionage is a serious issue that may pose grave political and economic consequences for the business. Ever since being denied entry to Russia in 2016, Atle Berge was forced to manage his company remotely from Kirkenes. At first, Norwegian media such as NRK speculated that Berge and his successful business in Northwest Russia was the target of “*raiderstvo*” also known as illegal business takeover.¹²⁴ In an interview with NRK, Berge tells that he was detained by members of the Russian security service FSB in Murmansk when he was about to go to work.¹²⁵ They interrogated him for several hours and threatened to inject him with “truth serum” until he confessed guilty of gathering information on behalf of the Norwegian government.¹²⁶ Fortunately for Berge, the people who interrogated him gave up and left him unharmed.

Berge later came forward in 2018 in which he said the Norwegian Intelligence Service approached him several times with the intent of recruiting him as an informant.¹²⁷ Although he refused, the meetings with a foreign intelligence agency were sufficient enough make Berge a *persona non grata*. The exact details around Berge’s interactions with the Norwegian Intelligence Service has not yet been fully disclosed to the public, but nevertheless, this event had a massive detrimental effect not only for Ølen Betong in Murmansk, but also for other Norwegian companies in Russia. Firstly, within the Barents Regional Cooperation discourse,

¹²³ Ølen Betong (19.02.2015)

¹²⁴ Abelsen Tarjei, Trellevik Amund (08.07.2016)

¹²⁵ Abelsen, Tarjei (25.09.2016)

¹²⁶ Abelsen, Tarjei (25.09.2016)

¹²⁷ Hansen, Evelyn Berg (25.04.2018) «*Atle Berge om den norske etterretningstjenesten: – De prøvde å verve meg som informant flere ganger*». Published in *Verdens Gang*

Ølen Betong was considered a beacon of light of a successful Norwegian company in Russia. Secondly, the harsh treatment of Berge at the hands of the FSB is reminiscent of the kind of post-Soviet criminal intrigues which involved members of the security services. The event led members of the Norwegian public to suspect that Ølen Betong was indeed a victim of raiderstvo, and companies were deterred of doing business in Russia. The theory is further strengthened since the company made billions on its contracts with the Russian state and companies were deterred of doing business in Russia. Ølen Betong lost over 100 million NOK after Berge and two other Norwegian employees were issued entry bans.¹²⁸ Lifting the ban is unlikely to happen as such an action must be approved by someone sitting on the higher end of the political hierarchy. Berge is left with managing the company from elsewhere in the same manner as Barel in Kirkenes.

5.4 Other Norwegian business ventures 2008 – 2014

Norwegian business presence in Northwest Russia was at its height in the early years of fourth phase with 2008 – 2010 being the peak. The precise number of companies from this period is ambiguous because the information stems from different sources. In 2008, Teknisk Ukeblad wrote an article claiming that around 70 to 80 Norwegian companies had addresses in Murmansk.¹²⁹ A 2006 report co-opted jointly by the Norwegian Barents Secretariat and Innovasjon Norge puts the number of Norwegian-registered companies at 80, adding weight to the claim as well as giving an idea of the businesses presence at the time.¹³⁰ Nonetheless, it should be noted that many of these companies consists of subsidiaries, joint ventures, representatives, and partners. Common for the many of these companies was the chance of earning billion figure contracts in Shtokman and other potential development projects in the Russian gas and oil sector.

The level of excitement and optimism of the time is captured by a headline from 2008 titled: «*Milliardene flyter i Murmansk: Vill vekst lokker nordmenn*», which translates to: “*Billions worth of money to be made in Murmansk: unprecedented growth attracts Norwegians*”¹³¹

¹²⁸ Horn Knut-Sverre, Wormdal Bård (15.02.2019) «Saksøker den norske staten for spion-verving i Russland». Published in NRK

¹²⁹ Haugstad, Tormod (02.10.2008)

¹³⁰ Stålseth Frode (2006)

¹³¹ Haugstad, Tormod (02.10.2008);

Moreover, a quote from the article by a Norwegian investor asserts that: «*Murmansk is now the most profitable place in Europe to invest in*». ¹³² Birger Johansen, is referring to Arctic Arena – a multicomplex building in Murmansk housing everything from living quarters, sport facilities, conference centre, and a shopping mall. The project had a price tag of 3 billion NOK and it included major Norwegian investors such as Olav Thons Amfi Eiendom, Storebrand Eiendom, Coop og City-passasjen. ¹³³ Johansen even rented office space in the city centre where the outline of the project would have been planned. ¹³⁴ In 2009, construction of Arctic Arena was abandoned due to the onset of the global financial crisis. Birger Johansen commented in an interview in the same year: «*We concluded early on that the profitability of the project would be slim, but still lucrative. Then in Autumn the financial crisis came, and now we cannot possibly finance the project*». ¹³⁵ Arctic Arena was supposed to be built to meet increased business activity surrounding Shtokman. The facilities would likely have been designed in mind to accommodate the arrival of Norwegian businesspeople and their families.

Equinor (originally Statoil) has been present in Russia (main office in Moscow) for 28 years as of 2019. ¹³⁶ Equinor's first business venture into Northwest Russia began in the 1990s, which consisted of operating a chain of petrol stations around the Murmansk-region under the Statoil brand name. ¹³⁷ However, in terms of revenue, gas extraction in Shtokman could potentially have been the company's biggest business venture not only in the region, but in Russia as whole. Regarding Shtokman, former senior director of Equinor, Peter Melbye said: "Our main priority in Russia is Shtokman, and our activities up there is dependent on this project. We have our eyes on Yamal, and follow closely the development of the project, but

¹³² Haugstad, Tormod (2008). Original Norwegian source: «Murmansk er det området i hele Europa hvor det er mest gunstig å satse nå»

¹³³ NTB (02.2009) «*Norsk milliardinvestering i Murmansk på is*». Published in Dagbladet

¹³⁴ Emelianov Dima (10.02.2018) «*SATSER PÅ STOCKMAN-EFFEKT: Nordmenn satser på russisk gass-boom*». Published in E24

¹³⁵ Original Norwegian text: «Vi konkluderte relativt tidlig med at lønnsomheten i prosjektet ville bli liten, men at det var lønnsomt. Så kom høstens begivenheter med finanskrisen, og nå har vi ikke mulighet til å finansiere prosjektet ...» NTB/Dagbladet (02.2009) «*Norsk milliardinvestering i Murmansk på is*».

¹³⁶ Equinor (2019) «*Hvor vi er: Russia*». Extracted from: <https://www.equinor.com/no/where-we-are/russia.html>

¹³⁷ Equinor (23.09.1998) «*Nye stasjoner i Murmansk*». Extracted from: <https://www.equinor.com/no/news/archive/1998/09/23/NewStationsInMurmansk.html>

Shtokman is still important for us”.¹³⁸ Despite investing two billion NOK and owning 24% of the shares in the project, Equinor withdrew from Shtokman in 2012.¹³⁹ In addition to Shtokman, Equinor signed a deal with Rosneft in 2012, whereby to enter a joint venture together.¹⁴⁰ The deal outlined joint operations in areas located on the Barents Sea and the Sea of Okhotsk on the east coast of Russia. Even after experiencing several setbacks on the Russian market, Equinor remains optimistic in developing projects in the country. The company is likely to be available to negotiate new oil and gas projects in other parts of Russia.

Reinertsen AS is a Norwegian civil engineering and supplier of petroleum/industrial-related solutions based in Trondheim. The company first entered the Russian market in 2005 when it opened a manufacturing hall on the harbour of Murmansk city.¹⁴¹ Initially, Reinertsen utilized the cheaper labour costs in Russia to produce metal modules for the gas and oil sector on the Norwegian continental shelf. In anticipation of Shtokman, Reinertsen significantly expanded its business activities in the city to include 100 employees, as well as upscaling its manufacturing centre.¹⁴² At times when demand was high, up to 450 people have been contracted by Reinertsen.¹⁴³ Major Russian petroleum conglomerate, Gazprom, even bestowed the Norwegian company exclusive rights to be one of the project’s lead technical operators.¹⁴⁴ Even though the Shtokman-project never materialized, Reinertsen was still active in Northwest Russia. By 2014, the company had 185 employees who still produced steel modules for the Norwegian oil sector.¹⁴⁵ However, the industry suffered greatly because of the slump in oil prices in 2014, which in return, affected Reinertsen’s business in Murmansk. The situation was made worse with the introductions of Western sanctions over

¹³⁸ Dagenborg, Joachim (08.01.2010) «Statoil: - Gazprom har fullt trykk på Shtokman». Published in E24. *Original Norwegian source: «Vår hovedprioritet i Russland er Shtokman, vår aktivitet der oppe avhenger at vi får det prosjektet videre. Vi ser på Yamal og følger med på prosessene rundt det, men det viktigste for oss er Shtokman».*

¹³⁹ NTB (07.08.2012) «Statoil trekker seg ut av Stockman-prosjektet». Published in Aftenposten

¹⁴⁰ Dyrnes Steinar, Færden Siri (05.05.2012) «Statoil fikk gigantavtale i Russland». Published in Aftenposten

¹⁴¹ Nilsen, Thomas (09.06.2017) «Closed and silent at Norwegian business pioneer in Murmansk». Published in The Barents Observer

¹⁴² Hegerberg, Helge (09.06.2007) «Reinertsen inne i Stockman». Published in Adressaavisen

¹⁴³ Nilsen, Thomas (09.06.2017)

¹⁴⁴ Hegerberg, Helge (09.06.2007)

¹⁴⁵ Alexanders, Rune S. «Her skal de ha 100 ingeniører på plass innen sommeren». Published in Nordlys

the Russian annexation of Crimea the same year. Aker Solutions bought Reinertsen's oil and gas service business in 2017.¹⁴⁶ Since then, nothing has been heard about the fate of its business in Murmansk. However, it is possible that the manufacturing department in the city will see potential orders once the sanctions are lifted and more petroleum projects are being planned in the next years.

DNB ASA – Norway's largest banking group bought its way into Russia by acquiring the local Monchebank in 2005.¹⁴⁷ By the time of the acquisition, DNB in Murmansk had 180 employees across five branches in the area. DNB's incentive to enter Northwest Russia was anticipated by the Barents Region's prospects in oil and gas extraction. DNB in Russia ended its business venture in 2014, on the grounds that the market was outside the bank's geographic strategy, and because of an increase in capital adequacy.¹⁴⁸

SpareBank 1 Nord-Norge aspired to enter Northwest Russia with the same intentions as DNB – to provide loans and financial services to companies from Northern Norway wanting to set up business on the Russian market. The bank is headquartered in Tromsø but established a branch in Murmansk in 2008.¹⁴⁹ After operating in Murmansk for 8 years, SpareBank 1 Nord-Norge had no choice than to close business in 2016. The bank suffered financial losses of 300 million NOK because of its business venture in Russia and was forced to sell all remaining assets.¹⁵⁰

5.5 The exodus: Oil crisis, sanctions, and the Ukrainian Crisis

The end of the fourth phase in 2014 saw possibly the largest exodus of foreign companies leaving Russia. The catalyst of the exodus was prompted by both economic and political reasons. As in 2008/2009, declining global oil prices again had detrimental impact on the

¹⁴⁶ Nilsen, Thomas (09.06.2017)

¹⁴⁷ NTB (27.10.2005) «DnB NOR kjøper bank i Murmansk». Published in Verdens Gang

¹⁴⁸ Solberg Thomas, Sørheim Tone Iren (25.04.2014) «DNB selger unna bankvirksomhet i Russland». Published in E24

¹⁴⁹ Kolbeinsen, Kjell (23.05.2008) «SpareBank 1 Nord-Norge kjøper seg inn i russisk bankvirksomhet og etablerer bank i Murmansk, Russland». Extracted from: <https://news.cision.com/no/sparebank-1-nord-norge/r/sparebank-1-nord-norge-kjoper-seg-inn-i-russisk-bankvirksomhet-og-etablerer-bank-i-murmansk--russland.c9325291>

¹⁵⁰ High North News (05.01.2016) «Nå er SNN helt ute av Russland». Published in High North News

Russian economy, which still relied on raw material export. In addition to the slump in oil price, the Russian economy suffered even further because of economic sanctions imposed on Russia over its annexation of Crimea in 2014 and subsequent military involvement in Eastern Ukraine. As a response to Russia's military actions in Ukraine, the EU, USA, Canada, Norway, Japan, and other Western countries introduced sanctions on key strategic sectors in the Russian economy with the goal of changing the Kremlin's course. Sanctions included among others: a ban of exporting petroleum-related technology and heavy industry parts to Russian companies, denying loans and financial services, and travel restrictions of high-ranking members of the Russian political elite. Russia retaliated with its own set of sanctions of banning food, fish, and dairy products from entering the country.

By the end of 2014, the combining factors of lower oil prices together with sanctions resulted in the rouble currency to drop considerably low to a level akin of the 1998 rouble crash. In December alone in 2014, the rouble lost 22% of its original value, and 48% against the US dollar.¹⁵¹ Such a steep drop in domestic currency value means that foreign commodities become more expensive, food prices rise, devaluation of the rouble, and overall purchasing power of consumers and companies in Russia decreases. All this translates to a recipe for an economic crisis which is the fourth in the Russian Federation's 23 year's existence. In terms of negative growth, the Russian central bank estimated that the domestic economy to shrink by 4,5% in 2015.¹⁵² The trend of negative growth in Russia has been recurrent ever since.

Norwegian companies were severely afflicted by the recent economic and political situation in Russia. Sanctions dealt a huge blow to any gas and oil development in Northwest as it was now prohibited for Norwegians companies to be directly involved with either exporting or partaking in ongoing projects. Both Western and Russian countersanctions had a ripple effect on most business activities in Russia. For example, sub-contractors and suppliers of petroleum equipment could no longer turn profit due to restrictions. Sea food companies in Norway were no longer allowed to export their products to the Russian market. Banks such as DNB and SpareBank 1 Nord-Norge lost out by not having any potential clients in need of their financial services. Along the chain, other companies experienced less demand as the

¹⁵¹ Fredriksen, Andreas Wolden (15.12.2014) «Verste rubel-dag på 16 år». Published in E24.

¹⁵² Fredriksen, Andreas Wolden (15.12.2014)

larger companies lost their primary source of income. It was mentioned earlier that several dozen Norwegian companies were present in Northwest Russia in 2008, the beginning of the fourth phase. According to an official overview compiled by the Norwegian Consulate General in Murmansk, which among other, offers consular aid to Norwegian companies in the region, only 12 companies remain as of 2019.¹⁵³ Although there has been an exodus of Norwegian-registered companies leaving Russia, other companies have laid low and downscaled their economic activities in the region.

¹⁵³ (2019) «*Norwegian Companies in Murmansk*». Excel document from the Norwegian Consulate General in Murmansk sent to the author via email. See attachment 1

6. Conclusion

The purpose of this research has been focused on the history of Norwegian business establishments in Northwest Russia from a historical context, to see how the different phases have changed throughout the times, and why some individual companies have managed to be successful while others have failed. Moreover, the research intends to also explain if there is a degree of predictability based on the findings from this thesis. First part of the summary is dedicated in analysing the inconsistency of the different phases. Second part focuses on historical changes throughout the phases.

6.1 Why Norwegian business presence is not consistent

Based on my thesis and interviews, I can say that doing business in Russia is not for everyone. The Russian market is a completely different from doing business in with its own set of challenges because of the country's laws, culture, language, and overall business climate. In addition, there are the issues of corruption, bribery, comradery, and the emphasis of having the right personal connections. To make matters easy, we can distinguish between *internal and external factors* to explain the inconsistency of Norwegian companies' presence in Northwest Russia.

The first internal factor for the inconsistency is the companies themselves. What separates the company that have stayed throughout the phases, is how they have addressed these challenges. Furthermore, the way these companies have handled them differs from each company. What they share are the criteria of success which were established early on in this thesis i.e.: *cultural understanding, learning the local language, long-term planning, and having a high degree of foresight in operating in a foreign market.*

For example, Kimek approached potential clients in Russia by showing an understanding of the local culture. To do so effectively, the company hired people who spoke the language. These proved to be valuable assets in establishing contacts or provide assistance in understanding local laws and customs procedures. Over time, the company gained trust by showing that mutual beneficial cooperation can work for both parties. Another barrier which many companies have come across with when doing business in Russia is corruption. Even if bribery is common in the Russian business world, Norwegian companies are still bound by Norwegian law to not give or accept bribes when operating in a foreign country. One example

is the VimpelCom scandal in which Telenor, one of the shareholders, became entangled in a series of corruption and embezzlement charges. The resulting backlash of the scandal led to the Norwegian board members of VimpelCom to withdraw from their positions in 2015.¹⁵⁴

Companies such as Kimek and Tschudi Shipping reduced the likelihood of dealing with corruption by not having local branch in Northwest Russia. Although corruption can occur in the most transparent states, being away from it reduces the likelihood of getting into situations where bribery is method to do business. Other companies such as Barel and Ølen Betong which have physical property in Russia, opted instead to have no-tolerance attitude to corruption and conduct everything in a transparent and legitimate way.

In terms of consistency, Barel is the most successful Norwegian company in Russia. Barel's case is interesting out of two reasons. First, the company has subsidiary company which has remained consistent in Murmansk longer than other companies. Second, the company has encountered few issues since its inception in the early 2000s. Thirdly, the company has managed to not only thrive, but also expand its business activities. The area which the company excels the most at, is how it solved the issue of transporting its products through Russian customs service. Customs service in Russia is notoriously intricate in terms of the level of bureaucracy involved. It is necessary to dedicate much time and effort to both understand and follow up how the system works. Barel circumvented this by hiring a former director of the Russian customs service who knows the system inside-out.

Apart from Ølen Betong because of insufficient sources, all the companies did extensive prior research before entering Russia. In my interviews, the companies and their management were already familiar with Russia, its people, language, and culture. They exhibit experience of previous business ventures, and they possessed knowledge of Russian culture presumably due to the mentioned companies are headquartered close to the Russian border in Finnmark county.

The second *internal factor* explaining the inconsistency, is that Norwegian companies whose

¹⁵⁴ Molnes Geir, Sara Svanemyr (29.04.2016). «Dette er Vimpelcom-skandalen». Published in E24

business activity centred around exporting services or goods to the Russian market were hit harder each time there were economic recessions. The reason is that once domestic purchasing power in Russia decreases due to a financial crisis, it directly affects the income of a company. The vast majority of Norwegian companies in the 1990s whose business practice involved selling products to the Russian market suffered greatly. Examples include Tschudi Shipping's bakery business and Pomor Plus. However, this is not always the case. Ølen Betong was successful in only offering its services to Russian companies. Despite establishing business in the midst of a financial crisis and the prospect of Shtokman not being realized, the company was still able to turn things around. Other companies such as Barel manufacture its products to customer located outside Russia.

Regarding *external factors*, these can range from political, economic, to societal factors. Since the dissolution of the Soviet Union and transition to market-style economy, there remain challenges such as corruption, or rather, the culture of corruption. Despite continuous efforts by several Russian administrations to combat it, corruption is still prevalent in Russia. Other issues such as legislation and bureaucratic system have been changed for the better. However, there are parts in both the legislation and bureaucracy that are intricate and contradicting. Understanding them is time-consuming, and many foreign companies struggle to understand them fully.

Another *external factor* which is difficult to change is culture, particularly business culture. The Russian business climate is often seen as being more aggressive and competitive than in Norway which favours more cooperation and compromise. A possible explanation is a legacy of the post-Soviet era in the 1990s. During the period, it was all about winning no matter the costs and maximize profits as much as possible. This kind of mentality is still prevalent, and some of the younger people in Russia who aspire to become businesspeople inherit it. Ølen Betong's many court cases are a result of this business mentality which can be attributed to this quote by Atle Berge: «Russians are not born with the art of diplomacy. The principle of the survival of the fittest rules. They are not used to either win-win situations or find mutual beneficial compromises. That is why so many disagreements end up in court. Most of them

for more or less meagre issues».¹⁵⁵

An *external factor* and probably the main cause why the presence of businesses is inconsistent is an economic one in the form of financial crises. Recessions and economic downturns in the Russian economy have resulted in more Norwegian companies leaving Russia than any other reasons. Being reliant on raw material export such as oil and gas, the Russian economy is susceptible to changes in global oil prices. Lack of economic diversity in the face of two financial crises in 1998, 2008, and 2014, has only worsen each time a recession occurs. Norwegian companies whose business is focused on the petroleum sector will always suffer as a result. The unforgiving truth about this external factor is that it is beyond the influence of individual business actors. Financial crises are the product of domestic policies, international trade patterns, and in especially in Russia's case, geopolitics.

Since the framework of the Barents Regional Cooperation was established in 1993, Norwegian companies have had the opportunity to apply for financial aid from several government-run organisations, agencies, and mutual funds. These include: The (Norwegian) Barents Secretariat, Innovasjon Norge, Investeringsfondet Nordvest-Russland (SND), Selskapet for Industriveksts (SIVAs), Norges Eksportråd, Investeringsfondet for Øst-Europa, among others. Financial support is vital for smaller companies wanting to do business in Russia. However, despite several hundred million worth of public money to Norwegian companies, most of them failed to stay remain in Northwest Russia. The majority of such public money was granted to companies in the 1990s and early 2000s. One reason why government financial was undecisive in supporting Norwegian business ventures in Russia, could be that the funds was distributed seemingly without issuing a set of guidelines or criteria for success. For example, joint venture companies such as RossNor and other companies with Russian partners were at risk of takeovers, particularly when public money was involved. A smarter approach would have been to grant public money solely to Norwegian companies which owned the majority of the company shares.

¹⁵⁵ Alexandersen Rune S., Olsen Rath Torgrim (23.04.2014). Original Norwegian source: «Russerne er ikke født med diplomatiets nådegave. Det er den sterkestes rett som gjelder. De er ikke vant med vinn-vinn-kultur og å finne kompromissløsninger. Derfor er det enormt mange saker som går til retten. De fleste er for bare mer eller mindre filleting»

6.2 Historical changes in the phases

The first and second phases from 1986 – 1991, and 1991 – 1998 respectively are characterized by foreign companies seeking quick profit by capitalizing on the limited access of commodities in the post-Soviet period. Most of the companies were sole proprietorship private entrepreneurs. They were intrigued by Russia and they established businesses without much planning in the long-term. The process of setting up a local business at the time was made easier because of the lack of regulations in registering a company. Transactions and business deals went unnoticed by the authorities, who were distracted by domestic issues such as not paying salaries to government officials, stabilizing the economy, dealing with rising crime rates, and generally trying to service essential state functions. The degree of disorganization combined with the state of lawlessness which gripped the country, allowed opportunistic business-minded people to operate with free rein. They seemed less compelled to follow Russian law when seeing other people who did not abiding by the law. It should also be highlighted that many of these business initiatives were private single enterprises, and not part of an already existing company name.

Even if doing business in Russia in the post-Soviet era was chaotic and convoluted in its laws and regulations, this was the time period that the Russian economy transitioned to capitalism and market- style economy. It was a period of experiment, and the first steps to make conditions better for companies began here. In addition, the two phases changed the perception that doing business in Russia is radically different. Business practice and indeed capitalism in Russia, evolved in its own distinctive way. Foreign companies had to learn cultural norms, how to navigate the bureaucracy, and the value of personal networks.

By the time of the third phase from 1998 – 2008, the conditions for doing business in Russia improved. Introduction of new laws and regulations made it easier to register a company. Moreover, it streamlined the process of reporting tax information, obtaining licenses, and or to send an application to the corresponding government agency be it tax authorities, customs services, immigration etc. Advancement in the Russian judiciary meant that sentencing and enforcing the rule of law became more efficient than before, though the system could still be exploited provided that one has money and connections. The bottom line in this period is that Russia has generally become more transparent in consonance with Western business practice. The trend is more noticeably in sectors such as banking and finance, telecommunications, IT,

and Russian state projects involving foreign partners. Regarding the latter statement, when questioned about the challenges of corruption in Russia, Atle Berge of Ølen Betong commented: «The cheapest option would be to use unreported labour with little focus on manufacturing long-lasting quality products. In this system, it is difficult for us to stay competitive. But luckily (for us), the large industrial projects are more transparent».¹⁵⁶

Violent mafia-style crimes including murder and physical attacks on wealthy businessowners made notorious throughout the 1990s in Russia, became less common in the 2000s.

Norwegian businessman, Hans Jochum Horn who has more than 20 years of business experience in Russia, explains the difference by using his personal business network as example as such: “In the 90’s, one client was on average liquidated each year. That hasn’t happened since the year 2000. Today it’s more sophisticated. They no longer physically attack you. Instead they use the courts, members in the security sector, and the police, to cause problems for others.”¹⁵⁷

In terms of influx of companies, the third phase of Norwegian companies were larger, publicly owned, and better-known Norwegian enterprises such as Statoil, Hydro, Kvaerner, and DNB. These companies did more extensive research of the market they were entering into. Furthermore, they planned to remain in Northwest Russia in the long-term, often by preparing for large-scale industrial projects in the Russian oil and gas sector.

The third phase affirmed again that the Russian economy is vulnerable to sudden fluctuations on the global price of oil. Moreover, it showcased that the country’s economic structures were not up to date to face a recession, because of the heavy reliance of oil export. The lack of economic diversity was also attributed as a factor of the 2008 Russian recession. President Medvedev openly outlined this issue as an obstacle to economic growth. His policy of economic diversification opened possibilities for foreign companies to invest in areas such as

¹⁵⁶ Alexandersen Rune S., Olsen Rath Torgrim (23.04.2014). Original Norwegian source: «Det billigste er å bygge med grå eller svart arbeidskraft og liten fokus på varige kvaliteter. I et slikt system er det vanskelig for oss å konkurrere. Men heldigvis er de større prosjektene mer transparente, sier Berge.»

¹⁵⁷ Dyrnes Steinar (18.02.2013). Original Norwegian source: «På 90-tallet ble i gjennomsnitt en klient i året likvidert. Det har ikke skjedd siden 2000. I dag er det mye mer sofistikert. De går ikke til fysisk angrep, lenger. De bruker rettsapparatet, sikkerhetsstyrkene, og politiet for å skape problemer for folk»

Internet-based services, telecommunications, and innovation. Despite expanded business opportunities, Norwegian companies in Russia were primarily involved in already familiar sectors such as oil and gas, manufacturing, shipping, and fishing-related industries.

By 2008, a pattern started to emerge whereby an influx of foreign companies to Russia would eventually have to face a financial crisis. The precursor would be that foreign companies would enter Russia when there is economic growth followed by leaving as soon as a financial crisis impacts their business. That was the case of the 1998 financial crisis in Russia which resulted in an exodus of foreign companies leaving. However, the difference this time is that a financial crisis happened within a span of one decade with more or less the same reasons.

The fourth and last phase from 2008 – 2014 continued similarly as the previous one in terms of business development. Norwegian companies in Northwest Russia were still positioning in developing the Shtokman-field as well as other future projects. The biggest gamechanger in this phase is the Russian leadership's increasing interest in exploiting its vast oil and gas reserves in its Arctic territories for profit. The Russian government was willing to commit itself to construct large industrial oil and gas projects. Such projects often required specialized expertise of which foreign companies possessed. The projects themselves required several foreign partners in order to finance and develop. Given that Norwegian companies such as Equinor, Hydro, and Ølen Betong already had the necessary qualifications, it was natural for them to enter Northwest Russia.

Another historical shift in the fourth phase is the rise of national sentiment in Russia because of the 2014 Ukrainian Crisis and sanctions. Although this already happened in the fallout of the 2008 Russo-Georgian conflict, geopolitical tensions between the West and Russia escalated to different level in 2014 because of Ukrainian Crisis. Sanctions imposed on each other from both sides directly affected the conditions for doing business in Russia for Western companies. Suddenly, political reasons had the most significant impact as to why doing business in Russia is difficult. In addition, Russia's political leadership took on a more nationalistic approach by denouncing Western products in favour of domestic produced goods. Before the countersanctions, Russia was one of the most lucrative markets for Norwegian fish export. Instead, Russian companies began to provide fish to its own domestic market. In other areas such as shipping, heavy industry, and oil and gas, the Russian

government decided to turn to China to recruit the expertise of which Western companies once had.

6.3 Do larger companies have better chances of succeeding?

When researching for this study, it became clear that size is a problem for Norwegian businesses in Russia. Small- to medium-, and even large-sized Norwegian companies are smaller in comparison with other international companies. The size of a company affects the scale of its business activities, the quantity of production and services, and how the company is perceived by Russian companies. Country Director of Innovation Norway Russia – Frode Mo describes the issue as such: «One of the main challenges for Norwegian companies operating in Russia is their small size. Russian companies demand orders that are ten times more than what a Norwegian company can deliver»¹⁵⁸. For example, a medium-sized Norwegian construction company aiming to receive a contract by the Russian state in developing infrastructure projects in the Russian Arctic would face a serious problem in keeping up with both demand and volume. As a result of small size, “Norwegian companies become uninteresting in the eyes of Russian companies and instead they are often confined to become sub-contractors.”¹⁵⁹ However, it is worth mentioning that the same issue regarding size is present in other markets such as in the USA and China. In these markets where production orders and volumes are larger and delivery times shorter, Norwegian companies struggle with the competition.

6.4 Epilogue: Beyond 2014; Business development in the Arctic today

In the aftermath of the 2014 Ukrainian crisis, sanctions and subsequent departure of foreign companies leaving the Russian market entirely, the prospects of a new phase seemed forlorn. Recent plans of development projects in the Russian Arctic territories have given renewed hopes in creating new business opportunities for Norwegian companies in Russia. The Arctic as a whole is seen as a vast region containing large reserves of natural resources such as oil,

¹⁵⁸ Interview with Frode Mo (19.12.2018). Original Norwegian text: “Hovedutfordringene for norske bedrifter i Russland er at de er små. Russiske selskaper krever ofte leveranser som er ti ganger mer enn hva norske bedrifter kan levere”.

¹⁵⁹ Interview with Frode Mo (19.12.2018). Original Norwegian text: “Størrelsen er et problem – noe som gjør norske selskaper blir uinteressante for russiske bedrifter som fører til at mange blir dømt til å være underleverandører”.

natural gas, minerals, and fish just waiting to be exploited. However, until recently, accessing these areas which are remote and are either located far from most major settlements on land, or far from the mainland on sea. However, climate change and rising global temperatures are impacting the region more rapidly than any other place in the world. This is noticeable in the sea-ice cover in the Barents Sea melting sooner before the winter months, thus permitting all-year exploration and access to areas with natural resources. As a consequence, companies and governments have shown more interest in developing the Arctic region as an economic zone.

Commercialization in Arctic is primarily driven by the need to supply energy, food, and natural-based goods to a growing global population. Because of this, the Arctic has been prioritized by the governments of Norway, Finland, Sweden, Russia, China, all of which have their own individual strategies regarding economic development. Key industries are expected to yield large turnovers and business opportunities are:

1. Energy i.e. oil & gas extraction.
2. Maritime shipping through the Northeast Passage.
3. Fishing and aquaculture.
4. Tourism.

As of 2019, we are already seeing the precursors of a fifth phase of Norwegian business initiatives in Northwest Russia. Again, these activities are centred around energy, shipping, and fishing – industries which Norwegian companies have experience and knowledge that may prove useful in building industrial projects. Norwegian business activities in the Murmansk and Archangelsk regions will likely be influenced by Russia’s own economic priorities in the Arctic. On the other hand, Russian projects in the Arctic are influenced by Chinese interests as part of the “Polar Silk Way” initiative. There are currently 25 different state and private oil and gas projects being planned in Russia worth 164 billion US dollars.¹⁶⁰

Even though there is renewed optimism and possible business opportunities for Norwegian companies in the next phase, there remain challenges. The ongoing issue of sanctions, geopolitical tensions, climate sustainability policies, and competition from Asian actors such

¹⁶⁰ Reuters (18.04.2019) «*Russia Explores \$164Bln Worth of Arctic Projects – Reports*». Published in The Moscow Times

as China, are a few challenges that will be present.

Once tensions between the West and Russia are normalized and the sanctions are lifted, its highly likely that Norwegian companies will once again resume their former business roles. By that time, it is possible that Russian or Chinese companies have already offered the same services.

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8. Attachments

1. Norwegian Companies in Murmansk

	Company	Russian division	City	Address	Main activity	Website
1	Akvaplan NIVA AS	АО "Акваплан-нива Баренц"	Murmansk	183052 Murmansk, Kolskiy pr.,10	Research on fish farming	http://www.akvaplan.niva.no/ru/russia
2	Barel AS	N/A	Murmansk	183034 Murmansk, Sverdlova str. 39	Electronics	www.barel.no
3	Eimskip Norway	ООО Эймскип Мурманск	Murmansk	183038 Murmansk, Lenina Prospekt 82, office 911	Total solutions in transport	www.eimskip.com
4	KIMEK Offshore AS	ООО Севгипрорыбфлот	Murmansk	183038 Murmansk, Shmidta st., 43 office 611	Oil & gas Service	www.kimek.com
5	NOFI Tromsø AS	Representative	Murmansk	Park Inn by Radisson Polyarnie Zori Akademika Knipovicha str., office 223	Supplier of a wide range of tools and equipment for the cod and shrimp fleet; gill nets, longlines and hand lines to the coastal fleet	www.nofi.no
6	Norway Park		Murmansk/ Kirovsk		Climbing park	www.norwaypark.ru
7	Normar Trading AS	ООО Нормар Сифуд	Murmansk	183038 Murmansk, Podgornaya 92-105	Selling used fishery equipment	http://nordicmarine.net/
8	Park Inn by Radisson Polyarnie Zori	ОАО Гостиница "Полярные Зори"	Murmansk	183039 Murmansk, Knipovicha 17	Hotel	https://www.parkin.ru/hotel-murmansk
9	Storvik and Co AS	ООО Стурвик Консалт	Murmansk	Murmansk, Vorovskogo str. 5/23, office 701	Business development services, project management, Russian	www.storvik.com

					strategy consulting	
10	Tommen Gram AS	Representative	Murmansk	Park Inn by Radisson Polyarnie Zori Akademika Knipovicha str., office 223	Packaging materials supplier - maritime	www.tommen.no
11	Wilson Ship Management AS Murmansk branch	ООО ВИЛСОН МУРМАНСК	Murmansk	183025 Murmansk, Trudovykh Reservov str. 6	Manning and training of seafarers	www.wilson-crewing.com
12	Ølen Betong Murmansk AS	ООО Олен Бетон	Murmansk	184381 Murmansk region, Kola, Pl. Avtomobilistov 6	Concrete manufacturing	http://www.olenbetong.no/

2. Questionnaire form for the interviews (in Norwegian)

1. Hvordan har situasjonen for norske bedrifter som opererer i nordvest-Russland endret seg fra midten av 1980-tallet og frem til i dag? (Hva kjennetegner for eksempel forretningsmiljøet for norske bedrifter i nordvest-Russland på 1990-tallet, 2000-tallet, og de siste årene?)
2. Hvor viktig er kjennskap til russisk språk og kultur når en bedrift skal operere eller etablere seg i Russland?
3. Hva er de største kulturforskjellene mellom nordmenn og russere? Er det et hinder for norsk-russisk nærings samarbeid?
4. Hva er hovedutfordringene for norske bedrifter/deres bedrift i Russland? (byråkratisk system, rettssystem, utpressing, politisk regime, korrupsjon, ulikt forretningsklima og mentalitet)
5. Russland er et krevende marked for utenlandske bedrifter å operere i og med. Hva kjennetegner de bedriftene som har lykket og det som ikke har lykket? Er det eksempler på det?

6. Hvordan påvirker storpolitikken mellom Russland og Vesten norske og utenlandske bedrifter som opererer på det russiske markedet?

7. Vil den økte russiske interessen og aktiviteten i nordområdene innenfor petroleum- og gassutvinning, infrastrukturbygging, og shipping gjennom Nordøst-passasjen kunne stimulere til økt norsk forretningsinitiativer eller samarbeid i Russland?