

RUSSIAN MULTINATIONALS IN ROMANIA AND THEIR IMPACT UPON THE ROMANIAN ECONOMY

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ABSTRACT: *Our paper provides an insight into the universe of Russian multinationals and their influence upon the Romanian economy. Even if statistical data on foreign direct investment stock by country of origin do not prove the existence of Russian capital in Romania, it is a fact that the high values of foreign direct investment stock from the Netherlands, Austria, Germany or Switzerland are largely due to the investment projects undertaken in Romania by Russian multinationals. Despite the lack of relevant statistical data, we can say that the impact of Russian MNC's on the Romanian economy is huge. Among positive influences we can mention: global employment opportunities for highly qualified workforce in the region; the transfer of advanced technologies to Romanian enterprises and the local markets; the awareness of business partners and public opinion on social responsibility; the insert of higher performance standards, competitiveness and managerial ethics.*

KEY WORDS: *Russian MNC's; Lukoil; Mechel; TMK; Vimetco; Luxoft; Gazprom.*

JEL CLASSIFICATION: *F20; F23.*

1. INTRODUCTION

In the early 2000s, numerous voices stated that the emergence of Russian multinationals was a threatening process, as they were envisioned as tools of regaining political hegemony rather than pure economic entities. However, many studies revealed that Russian multinationals are, in fact triggered by economic motivations, when they make the decision whether to expand overseas or not. This paper focuses on the presence of Russian multinationals in Romania and their impact upon the local economy.

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The influence of Russian multinationals upon the Romanian economy is extremely important, though very difficult to illustrate with the help of available statistical data at the national level. According to the latest reports, Russian investments in Romania amount to only two billion dollars. However, Russian multinationals are extremely well represented on Romanian territory, where they operate through their subsidiaries within the Netherlands, Germany or Switzerland, which means that although direct foreign investment flows enter Romania from the East, they reach destination through intermediaries.

2. RUSSIAN GIANTS IN ROMANIA

Alongside other multinationals from BRIC countries, corporate giants from Russia started to emerge in the international rankings of global companies. For instance, in the Forbes List of 2000 Global Companies, in 2011 there were 136 Chinese (including Hong Kong), 61 Indian, 33 Brazilian, 20 South African and 16 Mexican corporations. Russia was represented by 28 companies, with the aggregate capitalization of 762.6 billion USD, returns of 100.8 billion USD and total assets valued at 1,403.8 billion USD (Annex 1).

The geography of multinationals expansion reflects that Europe is the by far the destination of choice for Russian foreign direct investments. Moreover, CIS countries and Eastern Europe are preferred by the giant corporations from Russia when they conceive their strategies of expanding abroad. This trend is caused by the linkages already in place in the former Soviet Union area, common business practices and cultural values, low competition from other MNCs from elsewhere etc.

Statistical data in table 1 'hide' the existence of Russian capital in Romania, but it has to be underlined that the high values of foreign direct investment stock in the Netherlands, Austria, Germany or Switzerland are largely due to the investment projects undertaken in Romania by Russian multinationals.

For example, natural gas - one of the products for which Romania registers the most important volumes of imports in recent years - is provided to consumers by the Russian-German company Wintershall.

The main coordinates of Russian multinationals activities in Romania are presented as follows.

By far the most important in Romania is the Russian LUKOIL Romania. Lukoil is a multinational vertically-integrated oil & gas company which accounts for 2.2% of the global output of crude oil. The main activities of the company are the exploration and production of oil & gas, the production of petroleum goods and petrochemicals, as well as the marketing of these outputs.

The company has grown over the last 20 years from a few production assets in Russia into a multinational energy company with operations in 37 countries and on 4 continents. The financial performance of Lukoil company has reached awesome values, despite the adverse effects of the global crisis: the net income raised by 28.5% in 2010 to \$ 9,006 million while the return on average capital employed was 14.0%. With a level of \$ 11 net income per boe in 2010, Lukoil stood one of the most financially efficient oil companies in Russia (www.lukoil.ro).

Table 1. Foreign Direct Investment Stock by Country of Origin as of 31 December 2010

	€ million	% of total FDI
TOTAL, of which	52,585	100.0
<i>The Netherlands</i>	10,903	20.7
<i>Austria</i>	9,346	17.8
<i>Germany</i>	6,398	12.2
France	4,384	8.3
Greece	3,016	5.7
Italy	2,808	5.3
Cyprus	2,550	4.9
<i>Switzerland</i>	2,021	3.8
USA	1,349	2.6
Spain	1,064	2.0
Other*	8,746	16.7

Source: National Bank of Romania & National Institute of Statistics, *Foreign Direct Investments in Romania in 2010*; Note: * Countries which invested less than EUR 1 000 million

Oil and gas giant Lukoil entered the Romanian market in 1998. Nowadays, Lukoil sells fuel through a network of 300 stations and 9 petroleum deposits. The Group also controls Russia and Petrotel-Lukoil refinery. The net turnover of Lukoil Romania in 2010 topped \$ 4500 lei (which means an increase of almost 40% as compared to the previous year), and the contribution to the state budget financing is impressive. Investing and business activity of Lukoil Romania has a great an impact on the Romanian economy: over 400 million dollars invested over the past 13 years (out of this total sum, 7.7 million dollars were spent in the field of environmental protection only) and 3800 new jobs were created in the company (www.lukoil.ro).

In the steel industry, the most important multinational of Russia that operates on the territory of Romania is the holding company MECHEL. Mechel's fully integrated business lies in four distinct segments: mining, steel, ferroalloys and power. The corporation holds production establishments in 13 of Russia's regions as well as the United States, Kazakhstan, Romania, Lithuania, Bulgaria, United Kingdom and Ukraine.

According to its' official website, Mechel is the first and still the only coal mining and metals company from the region of Eastern and central Europe and Russia having its shares placed on the New York Stock Exchange. The company has about 93,000 employees worldwide, from which 7000 are working in Romania. Mechel Multinational Company entered the Romanian market in 2002 and it currently holds the plants Mechel Câmpia Turzii (INSI), Mechel Targoviste (COS), Ductile Steel Oțelu Roșu, Ductile Steel Buzău, Laminorul Brăila and Mechel Targoviste Repairs.

The Russian Group is currently the second player on the Romanian iron and steel market, after Arcelor Mittal.

Another important presence in Romania is OAO TMK operating in the same field. TMK is Russia's largest manufacturer and exporter of steel pipes which ranks among the global top three pipe producers. TMK is a public company which is listed on London Stock Exchange and Moscow Stock Exchange. These products are used in the oil & gas sector, chemical and petrochemical industry, energy, engineering and ship building machinery, aircraft, space and rocket engineering, as well as in construction industry, utilities and agriculture.

TMK has even more potential to expand its business overseas. For a period of time, the foreign production facilities of TMK were restricted to only two enterprises in Romania. Therefore, TMK's internalization strategy began in this neighbouring country. In 2006, TMK acquired controlling shares of SC ARTROM SA pipe plant (now TMK-ARTROM) and SC C.S.R. SA smelter (now TMK-Resita). These investments represented a bridgehead from the perspective of shaping TMK's production networking and from that of strengthening its position in the European market of pipe producers.

Moreover, the incorporation of the Romanian smelter that provided steel for pipe products within the Russian business Group supported further vertical integration of the company. In March 2008, TMK has made an adventurous move by getting an agreement to purchase pipe facilities of North American metallurgical group IPSCO. This deal which was made jointly with another giant Russian multinational - Evraz, was by far the greatest foreign acquisition in TMK's history and also the richest, bringing a total expense of approximately \$ 1.7 billion. Billionaire Dmitry Pumpianski, owner of TMK, announced recently that the Group wants to invest an annual \$ 300 million by 2020 in countries where it is present, in order to maintain the assets and to develop new products.

Vimetco holding is another Russian multinational which operates in Romania. Vimetco is a globally integrated aluminum Group, with bauxite mines in Sierra Leone, coal mines, aluminum production facilities and electricity plants in located in China and an alumina refinery and aluminum smelter in Romania. With 17,122 employees worldwide, Vimetco's sales amounted to \$ 2,717 million in 2011 while the gross profit reached the level of \$ 358 million.

In Romania, the company holds the aluminum manufacturer Alro Slatina and the alumina factory Alum from Tulcea. The two companies practically form the entire chain of aluminum producers in Romania. With a production of 288.000 metric tons of raw aluminum, Alro SA is the largest aluminum producer in Central and Eastern Europe (excluding Russia) in 2008. Alro company reported for the year 2011, a preliminary turnover of 2.24 billion lei, as compared to 1.81 billion lei in 2010. The 2011 preliminary net profit increased by about 44%, reaching 230 million lei, as compared to 159.78 million lei in 2010.

Alro SA customers are end-users and traders of metals from both Romania and around the world. Over 80% of the production of Alro is sold on the international market through the London Metal Stock Exchange and under long-term direct contracts with clients from 25 countries of the world. States of the European Union

(Italy, Greece, Austria, Hungary etc.), as well as Turkey, the Balkan countries and the United States of America are the main markets for the products of Alro factory.

Luxoft is a multinational company from Russia operating in the field of (outsourcing) IT services. The company, established in 2000, is headquartered in Moscow with development centres in St. Petersburg, Omsk, Krakow, Kiev, Odessa, Dnepropetrovsk, Ho Chi Minh City, Welwyn Garden City (United Kingdom) and Bucharest. Offices are in New York, London, Frankfurt, Singapore and Seattle.

Luxoft is the company which assumes the role of the emerging global leader in the development of high quality software. Among the areas which it covers there are aerospace, automotive, energy industry, financial-banking sector, telecommunications and electronic commerce. The list of clients of the company include Boeing, Deutsche Bank, Dell, HP, IBM, Alstom, Bosch, New York Media (who edited New York Magazine), as well as the U.S. Department of Energy, the latter providing vocational retraining programmes for former nuclear engineers wishing to work in the development and testing of software products.

In Romania, Luxoft is present since 2008, when the company completed the acquisition of local ICT Networks. According to Luxoft official website, Luxoft Romania continues ITC Networks's tradition of quality telecommunications industry service, as well as delivering product engineering and application development services to clients in other business domains. Additionally, Luxoft Romania offers the advantages of nearshore delivery to European organizations.

There are other multinationals from Russia who have expressed an interest to enter the Romanian market. The most recent and relevant example is the company GAZPROM, which already delivers on the Romanian market, annually about five billion cubic meters of natural gas, and the collaboration with partners from Romania already has a tradition of 30 years. The Romanian media announces at the end of 2011 that Petrom, the largest local company in the oil field is in negotiations with the Serbian company NIS, controlled by GAZPROM, in order to sell 130 gas stations, which would represent almost a quarter of its entire gas distribution network.

The transaction has not been completed yet, but the interest of the Russian corporation in the Romanian market is still high, according to the media. Internationally, Gazprom is a true Empire: it owns one-third of the world gas production, it controls active companies in the field of banking, insurance, media, agricultural production etc. The company owns a monopoly on gas pipeline system, connecting Central Asia, Russia and Europe.

The gas from Turkmenistan or Uzbekistan, Kazakhstan intended for the European market must transit the pipelines belonging to Gazprom, which gives it a huge geopolitical weight. The company Gazprom has subsidiaries in most European countries and it implements an aggressive policy to increase market share. The construction of the two new and important North Stream pipeline (inaugurated in November) and South Stream (on which work will begin this year), will open the doors to a more liberal and energy consuming European market.

3. THE IMPACT OF RUSSIAN MULTINATIONAL ON THE ROMANIAN ECONOMY

A brief review of the business conducted by the Russian multinationals in Romania leads us to the conclusion that these economic giants started, at the beginning of 2012, to control the aluminum industry, much of the metal and iron and steel industry, two refineries and a quarter of the fuel market. Therefore, despite the lack of relevant statistical data that reflect precisely this phenomenon, the impact of Russian multinationals on the Romanian economy is huge. We can assume a number of positive aspects that derive from this reality, as well as some negative consequences.

Among the positive influences it is worth mentioning the following (Voinea, 2007):

- offering global employment opportunities for highly qualified workforce in the region; carrying out greenfield investment projects;
- transferring advanced technologies to Romanian enterprises and the local markets;
- reinvigoration of industries and of human communities and existing villages in the neighbourhood of new industrial centres;
- increasing the volume of exports, with a direct impact on economic growth;
- awareness of business partners and public opinion on the social responsibility issue;
- introducing higher performance standards, competitiveness and managerial ethics and practices which can be spread throughout the region etc.

Probably the most important positive effect is the contribution of Russian investments to the domestic capital which motivates, in its turn, the processes of economic growth through investment multiplication and driving effects (Voinea, 2007).

Thus, the foreign capital has the advantage that it brings with it higher advanced technologies and managerial and marketing skills that, once transferred to subsidiaries in Romania, are able to confer substantial competitive advantages to multinationals. The existence of a competitive market forces other competitors that operate in the same industry as well to adopt new technologies, in an attempt to enhance productivity and efficiency.

Therefore, beyond the undeniable impact exercised over the national economy as a whole or multinationals generate positive effects when stimulating the performances of domestic firms that are obliged to implement the latest technology, as compared with the earlier situation in which there would be no foreign investors competing on the market. These transfers of technology, the management know-how and marketing skills were frequently mentioned in literature as positive external factors related to productivity which plays a very important role in the elaboration of policies for attracting foreign investors and, in time, it could lead to improving the competitive advantage of the Romanian economy as a whole.

Spillover effects are not limited only to implementing advanced technology and increasing productivity. In the literature, there are a series of studies that reveal the fact that subsidiaries of multinational companies which carry on export activities

stimulate the development of the export ability of local firms, through ready access to foreign markets.

The negative consequences of Russian multinationals entering the Romanian market are linked mainly to the characteristics of the competitive environment of the industry in which they operate. Considering that Russian multinationals were implanted in the key sectors of the Romanian industry (metal and iron and steel industry, oil and gas industry) where the competition of Romanian firms is very modest, it is obvious that the subsidiaries of Russian multinationals control the market (holding monopolistic or oligopolistic positions).

Therefore, there are cases when the competition mechanism cannot function efficiently; this brings supra normal profits for that certain subsidiary. However, this situation can occur to the detriment of consumers and of the possibility to ensure normal development opportunities for that field of activity.

The negative impact on the functioning of the local market is greater since the body supervising the competition in Romania – the Competition Committee – is not always vigilant enough to detect and sanction on time any agreements between competitors regarding prices and other anti-competitive practices which affect both the quality of the competitive environment as a whole and the chances of local firms to compete on equitable principles on such a market. In the Romanian literature, there are several approaches of the behaviour adopted by domestic firms which were put in the situation to face an extremely tough competition with subsidiaries of foreign multinationals; this reaction could be classified as *defensive strategy*.

Since Romanian firms did not have sufficient financial resources available in order to be able to compete on equal positions with foreign giants, they gave up this approach, focusing on a niche market opportunity and seeking to minimize losses. On the other hand, multinationals invested significant financial resources which enabled technological transfer, and the impressive growth of operational profits of foreign companies in Romania was due to this advanced technology. Here is why the technological transfer – beneficial for the national economy – may have adverse reactions, since Romanian companies which operate on a market with reduced competition can go bankrupt.

3. CONCLUSION

Although they emerged relatively recent on the world economy scene, on overview of the magnitude and the outstanding growing trend of Russian multinationals proved that they are becoming redoubtable competitors within the global business environment.

The overwhelming economic force of these top companies allows them even to shape the growth pattern of their home country. The list of the largest multinationals from Russia showed that corporations from oil & gas and metallurgical sector are prevailing, as a consequence of the resource – based character of the Russian economy. The high level of profits reported by Russian multinationals can be explained through the peak values reached by oil prices prior the global economic crisis.

Multinationals from Russia have a strong impact not only on their own economic system, but on the host countries' economies too. In the Romanian case, these economic giants control the aluminium industry, much of the metal, iron and steel industry, two refineries and a quarter of the fuel market. Nevertheless, macroeconomic data on FDI by Russian multinationals in Romania is very scarce and this fact brought many limitations regarding the results of our analysis. In this respect, we intend to undertake several qualitative studies in order to bring to light the activities and the strategies adopted by the affiliates of Russian multinationals in Romania. A deeper analysis on the policy implications for Romania as a host country is also recommended.

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Annex 1. Russian Companies in the Forbes Global 2000 list. Year 2011

- Billion USD -

No.	Rank	Company	Sales	Profits	Assets	Market Value
1	15	Gazprom	117.6	31.7	302.6	159.8
2	68	Lukoil	114.4	10.4	90.6	55.3
3	71	Rosneft	59.2	11.3	106	79.6
4	90	Sberbank	31.8	6.0	282.4	74.0
5	149	TNK-BP Holding	60.2	9.0	37.1	51.6
6	200	Surgutneftgas	20.3	4.3	46.6	39.9
7	255	VTB Bank	12.6	1.9	139.3	26.4
8	339	Norlisk Nickel	12.7	3.3	23.9	37.9
9	429	Sistema JSFC	28.0	0.9	43.9	9.7
10	482	UC Rusal	10.9	2.9	26.5	11.1
11	529	Tatneft	10.7	1.5	18.5	15.1
12	587	Transneft	14.6	3.9	54.1	3.0
13	604	Novatek	5.4	3.7	11.9	43.2
14	649	Rostelecom	9.1	1.0	14	15.2
15	661	Novolipetsk Steel	8.3	1.3	13.9	14.0
16	712	IDGC Holding	18.3	0.7	25.1	5.4
17	767	RusHydro	13.7	0.3	21.3	11.4
18	831	Federal Grid	3.7	0.6	35.1	14.6
19	860	Severstal	13.5	0.6	19.3	14.6
20	988	Mechel	9.7	0.7	15.8	4.5
21	1034	Magnit	11.4	0.4	4.8	11.7
22	1234	Uralkali	1.7	0.5	2.4	23.9
23	1335	Magnitogorsk Iron & Steel	7.7	0.3	16.7	5.4
24	1354	X5 Retail Grup	11.2	0.3	8.6	6.7
25	1540	Bank of Moscow	2.9	2.2	27.4	6.0
26	1574	Inter Rao	2.6	0.4	5.1	11.2
27	1810	Polyus Gold	1.7	0.3	4	8.4
28	1810	TMK	6.8	0.4	6.9	3.0
Total	-	-	620.7	100.8	1,403.8	762.6

Annex 2. Skolvovo Ranking of Russian multinationals in terms of foreign assets, foreign sales and foreign employment

Company Name	Industry	Total Assets	Foreign Assets	Total Employment	Foreign Employment	Total Sales	Foreign Sales
Lukoil	Oil&Gas	59632	20805	150	22	81891	68577
Gazprom	Oil&Gas	276485	17236	445	9	97302	58415
Norilsk Nickel	Minerals	35696	12843	88	4	15909	14582
Evrast	Steel	16380	6221	127	13	12808	6856
Severstal	Steel	16717	5730	96	11	15245	8501
Sovcomflot	Transport	5300	4874	5,2	0,2	1243	1200
Rusal	Minerals	15631	4533	100	15	14300	10500
MTS	Telecom	10967	3812	24,7	5,3	8252	2071
Vimpel Com	Telecom	10569	3572	23,2	8,6	7171	1081
Novolipetsk Steel	Steel	13076	1594	60	2,8	7719	4816
PriSCO	Transport	1252	1208	1	0	164	137
TNK-BP	Oil&Gas	29128	1150	63	5,5	38665	29906
FESCO	Transport	2331	1055	3,2	0,6	872	n.a.
IMH/OAO Koks	Minerals	2901	978	23	3,4	1888	1142
Eurochem	Agri-chemicals	2646	901	24	1,0	3005	2373
InterRAO	Electricity	1188	799	16	14,0	1472	598
TMK	Steel	4676	606	48	3,1	4179	1185
Mirax	Development	n.a.	470	n.a.	n.a.	1300	55
GAZ	Automotive	2969	384	115	0,9	6224	1353
ChTPZ	Minerals	2708	262	25	1,7	3481	693
Acron	Agri-chemicals	1692	261	12	4	1266	938
Alrosa	Minerals	9274	231	35	0	3693	2133
Sitronics	Hi-Tech	1887	226	11	5,1	1620	1020
OMZ	Engineering	398	207	11,4	1,9	863	419
Ritzio Entertainment	Entertainment	397	200	19	6,9	1598	274