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PULL FACTORS DRIVING RUSSIAN MULTINATIONALS INTO FIVE CEE COUNTRIES

A SECTORAL OVERVIEW

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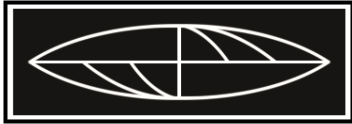

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Pull factors driving Russian multinationals into five CEE countries
A sectoral overview[*]

Csaba Weiner[a]

Abstract

Investigating the Russian economic footprint through outward foreign direct investment (OFDI) and the activities of Russian multinationals has not become either outdated or less interesting, even though, understandably, most of the current attention on Russian influence in Europe has been focused on direct interference in political affairs. This paper is the second of a four-part series that outlines the international expansion of Russian multinationals in five EU-member Central and East European (CEE) states, i.e., the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Here, the focus is on the pull factors responsible for Russian FDI inflows into these countries, as well as on the sectors in which investments are made. In doing so, the research relies on company data analysed using Dunning's eclectic paradigm of international production and his typology of four motives behind FDI. We find that most Russian FDI has been done in hydrocarbons, iron, steel and machinery, but banking, software solutions, electronic production, real estate and even the light industry have also been targeted. Investment is dominated by market-seeking and, to a lesser extent, efficiency-seeking projects carried out by state-owned or state-related private firms. There are a limited number of innovative private Russian companies on the market that show features similar to those of multinationals from developed countries.

JEL: D22, F23, M16

Keywords: outward foreign direct investment, multinational enterprises, pull factors, Russia, Europe, Czech Republic, Hungary, Poland, Slovakia, Slovenia

1. Introduction

This paper is the second in a series examining the international expansion of Russian multinationals. The first paper (*Weiner*, 2017) focused on the general characteristics of Russian outward foreign direct investment (OFDI) and multinationals, and their presence worldwide, in particular in the EU and five Central and East European (CEE)

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countries,[1] i.e., the Czech Republic, Hungary, Poland, Slovakia and Slovenia. The first paper found that Europe continued to play an unchallenged leading role in Russian OFDI, though its share was falling. It also showed that the five CEE countries were not among the main OFDI destinations. In Europe, Italy, Germany and the UK seem to be the largest recipients of Russian FDI. In CEE, Bulgaria, Serbia and Romania can be mentioned, but Russian FDI in the Czech Republic or Poland is also not negligible, and even Slovenia has received notable Russian-involved companies. In the first paper, we emphasised that domestic push and international pull factors were equally important when examining the motives behind Russian OFDI. Regarding the theorems, we suggested that Russian OFDI followed Dunning's eclectic paradigm or Ownership–Location–Internalisation (OLI) of international production to a certain extent, but the extension of the OLI theorem with a home-country leg (H) to OLIH was needed. We conducted preliminary testing of this approach for the five CEE countries. In this respect, we underlined that domestic push factors could be either negative (exodus) or positive (expansion), whereas international pull factors were positive in themselves. While home-country push factors were addressed in the previous study, this paper explores the pull factors responsible for Russian FDI inflows into these five CEE countries, as well as the sectors in which investments are made. For the latter, the previous paper found that Russian OFDI was generally still dominated by oil and gas multinationals, though Russian businesses were represented practically in every sector. In our five CEE countries, most Russian FDI has been done in hydrocarbons, iron, steel and machinery, but banking, software solutions, electronic production, real estate and even the light industry have also been targeted. We obtained these results by using company data, due to the specific features of Russian OFDI (such as trans-shipping and round-tripping) and inadequate statistics that do not provide the whole picture. In this paper, we again rely on company data.

This paper is structured as follows. *Section 2* deals with pull factors and related FDI theories. Firstly, it discusses the main motives Russian OFDI investors have for entering the markets, and then the EU-specific motives for such activities in light of Dunning's taxonomy. *Section 3* focuses on Russian FDI and multinationals in five CEE countries. It

[1] Central and Eastern Europe refers to a group consisting of the following 17 countries: Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia and Albania.

takes a country-by-country sectoral snapshot of the main Russian-involved companies to analyse the pull factors. Finally, *Section 4* offers a summary and some conclusions.

2. Pull factors driving Russian OFDI and theorems

According to *Liuhto* (2015: 11–13), the top 10 motives behind Russian companies investing outward are as follows: (1) OFDI as a personal bank (more convenience in executing financial operations when part of the funds are abroad), (2) market entry and expansion (moving closer to the final consumers), (3) raising profit margins (moving along the value chain from being an exporter of raw materials to a seller of final goods), (4) tax planning and minimization of customs fees (tax havens and low-tax countries), (5) risk aversion (perceived political risk of the home market), (6) securing a company's logistical chain (acquiring logistical units abroad to secure the exports of commodities from the domestic production site), (7) acquisition of advanced Western technology, (8) serving Russia's foreign policy objectives, (9) acquisition of real estate or the establishment of a firm abroad in order to obtain a "Golden Visa" (the motive, detected at many Russian small and medium-sized enterprises, aimed at getting a long-term residence permit abroad or even foreign citizenship) and (10) a necessity driven by increasing global competition (the constraints of the domestic market that push a firm to internationalize).

As widely known, borrowing and extending *Behrman*'s (1972) earlier taxonomy, *Dunning* (1993) identifies four types of multinational activities: market-seeking (import-substituting or demand-oriented), resource-seeking (supply-oriented), efficiency-seeking (rationalised) and strategic-asset- or capability-seeking FDI. We refer to these as pull factors. In general, the motives behind Russian OFDI are typically resource-seeking and market-seeking. One can also observe strategic-asset-seeking FDI, and this motive is especially present among Russian machinery companies outside the top 20 Russian multinationals (*Kuznetsov*, 2013: 3). However, this statement applies to strategic-asset-seeking FDI in a narrow sense, since this term can also be used in a wider sense. According to *Kalotay*, the definition of strategic-asset-seeking FDI is not entirely clear.

By creating this category, *Dunning* originally meant the acquisition of companies with high technology (firm-specific) content. It later received a wider interpretation (*Kálmán Kalotay*, personal communication, 2 November 2015). For this reason, *UNCTAD* (2005: 8) mentions acquisitions by the former Yukos oil company in Lithuania's Mažeikių Nafta oil refinery and in Slovakia's Transpetrol crude oil transporter as strategic-asset-seeking FDI. Following this wider approach, investment in the trans-Baltic Sea Nord Stream gas pipeline between Russia and Germany can also be considered in this category. Controlling the pipelines and terminals, i.e., the transport infrastructure, secures export deliveries and minimizes costs (*Weiner*, 2006: 7). *Kuznetsov* is still following the traditional (narrow) approach, and states that in a purely economic sense, FDI in infrastructure is either of the market-seeking (i.e., to meet the aim of accessing markets) or efficiency-seeking type (in the case of the reduction of transportation costs) (*Alexey Kuznetsov*, personal communication, 4 December 2015). Obtaining new technology and management know-how is still an important motive (*Fortescue and Hanson,* 2015: 285), though *Panibratov* (2014) claims that emerging-market multinationals are no longer characterized by obsolete technologies and poor management. In fact, they compete successfully with their international counterparts and are becoming more powerful on the global scene, as *Panibratov* (2014) adds. Nonetheless, *Fortescue and Hanson* (2015: 297) illustrate and provide examples that technology and know-how transfer play a major role in the foreign expansion of Russian steel multinationals. According to *Kuznetsov* (2013: 4), efficiency-seeking FDI is more typical for medium-sized Russian multinationals. *Kalotay* (2015: 249, 254) highlights that when Russian multinationals target upstream markets such as exploration and production, then – unlike other emerging-market investors (such as Chinese or Indian multinationals) – the motivation is typically not about ensuring resources for the home market; rather, they aim to control the value chain globally (i.e., the global markets), especially in developed countries. *Kalotay* (2015: 249) also stresses that when they acquire companies in their own industry, their main aim is horizontal control (market power). This horizontal control is important not only in the resource-based industries, but also in telecommunications. Finally, image-building and aspirations to achieve better global recognition is also decisive in Russian expansion (*Panibratov and Kalotay*, 2009: 3).

In the EU, the most important motives of Russian multinationals consist of sales promotion, access to, and retention of, markets. Most Russian multinationals are major exporters, while the EU is Russia's main trading partner. Compared to the domestic market and developing countries, Russian OFDI investors note the poor prospects in Western Europe and CEE for access to raw materials and increasing efficiency by lower labour costs (*Kuznetsov*, 2011: 10). According to *Kuznetsov* (2011: 10), the role of strategic-asset-seeking FDI (access to new technologies or the development of cross-border production chains) is small (see above), though it would be important for the modernization of the domestic economy. Russian energy multinationals have headed towards the vertical integration of supply chains (oil companies by purchasing foreign refineries and filling stations, while the state-controlled gas giant Gazprom by investing in infrastructure). However, this direction has recently been challenged. In the oil sector, Lukoil, Russia's biggest non-state oil producer, has sold a part of its European downstream assets and Rosneft, Russia's state oil champion, has also downsized its European investment programmes. In the gas sector, the creation of the single gas and electricity markets in the EU (including the EU's Third Energy Package) and ambitious climate governance constitute an abrupt transformation of a long-standing model of cooperation between Russia and the West (*Deák*, 2017).

Many Russian metallurgical multinationals tend to have research and development centres in Europe, but their research and development spending has been very small, and technology transfer has been more frequent in North American plants. Among the largest Russian multinationals, only Renova and Sistema conglomerates can be highlighted in terms of innovation (*Kuznetsov*, 2011: 10–11). Russian steel exporters are subject to import regulation and market protection on the EU market. With Russia's accession to the WTO in December 2011, EU quotas for Russian steel products ceased to exist, though Russia had not fully utilised the quotas even before that. Nevertheless, anti-dumping procedures continue to be a problem for Russia in the EU.

Kuznetsov (2011: 11) claims that it was common for Russian multinationals to strengthen their position in the EU before listing their shares or depositary receipts on European stock exchanges. More concretely, Russian companies bought subsidiaries in the EU in 2006–2007 to make their initial public offering (IPO) abroad comfortably (*Alexey Kuznetsov*, personal communication, 4 December 2015). The motive of attracting

much cheaper sources of financing as compared to domestic funds was typical for the period prior to the 2008–2009 crisis, owing to the underdeveloped domestic stock market (*Kuznetsov*, 2011: 11). In contrast, today, the EU's sanctions against Russia over its actions in Ukraine limit access to EU primary and secondary capital markets for certain Russian banks and companies (*European Council*, n.d.). Finally, for many Russian multinationals, the EU is still attractive because of its political stability, treated as a means to secure themselves against the possible nationalization of assets in Russia (*Kuznetsov*, 2011: 11).

In the first paper, we argued that the emergence and presence of Russian multinationals in the five CEE countries could be explained using *Dunning*'s (1977; 1979: 275–276) eclectic or OLI paradigm. According to this framework, firms must possess ownership advantages (O), enabling successful investment in a foreign country. The host country must have certain location advantages (L), linked to the investor's firm-specific advantages. Furthermore, the firm in question invests abroad, i.e., internalizes foreign transactions (I), only when OFDI is more profitable than other forms of presence, such as exports (*Kalotay et al.*, 2014: 39). As *Eden and Dai* (2010: 28) put it, "O" describes why firms are engaged in international production; "L" explains where they have gone; and "I", how they have organized their international activities. Nevertheless, the original OLI framework has been extended and modified several times. First of all, *Dunning* (1983: 334) differentiates between asset power (later termed asset-based ownership-specific advantages, Oa) and transaction power (later termed transaction-based ownership-specific advantages, Ot). Asset-based advantages include cutting-edge technologies, marketing prowess or powerful brand names, while common governance of assets and interaction with other corporate networks are considered to be transaction-based advantages (*Kalotay et al.*, 2014: 39). Transactional advantages were thought to also include the parent company's interactions with domestic business and the public environment. This assumption may be legitimate in developed countries, but it can hardly be tenable for multinationals from countries such as China or Russia (*Kalotay*, 2009: 383). Revising the OLI framework once again, *Dunning and Lundan* (2008: 101–102) added a third type of ownership advantage to the paradigm, i.e., institutional assets or institutional ownership advantages (Oi), drawing substantially on the work of *Douglass North* (e.g., see *North*, 1990). Institutional ownership advantages

also incorporate an imprint of the home country's institutional environment ("L" attributes) (*Cantwell et al.*, 2010: 572). However, according to *Kalotay* (2008a: 60; 2008b: 103), with the incorporation of institutions and institutional factors as lead components of the location advantages, the theory becomes one-sided as it considers the role of institutions in the host countries, but not in the home countries. Hence, *Kalotay and Sulstarova* (2010: 137–138), following *Kalotay* (2008a: 60; 2008b: 102–103), recommend the extension of the OLI theorem by adding a home-country (H) leg to OLIH. Similarly, *Anwar and Mughal* (2014: 15) argue that Russian OFDI follows the eclectic paradigm to a certain extent, but home-country factors also play a significant role. Likewise, in the case of BRIC countries, *Bulatov et al.* (2016: 419) suggest analyses of the economic and political models of the home countries. *Kalotay* (2010: 41) claims that home-country advantages play a similar role as ownership advantages. Moreover, home-country advantages may be the single most important factor in terms of OFDI from Russia. Therefore, we tested the OLIH framework first for the Visegrad countries (*Kalotay et al.*, 2014, 2016), then for the five selected CEE countries (*Weiner*, 2017), and this continues to be explored further in the paper.

3. Case studies of the five CEE countries

3.1. Poland

Russia is a surprisingly small investor in Poland, despite the common economic heritage and geographic proximity of the two countries and also despite the fact that Poland was the second main destination of Russian OFDI behind the United States in 1995–1999 (*Kalotay*, 2003: 11–13; *Kalotay et al*, 2014: 12).

Russian oil and gas as well as metal multinationals have been represented in Poland through the FDI activities of Gazprom, Lukoil and Severstal. However, Lukoil divested its downstream assets in 2016.

Gazprom's main interest in Poland is its ownership in EuRoPol GAZ, the owner of the Polish section of the Yamal-Europe gas pipeline, running from Russia to Germany across

Belarus and Poland. EuRoPol GAZ was formed in 1993 to design, construct and operate the Polish pipeline section. It is a joint venture involving Gazprom (48%), the Polish state-controlled oil and gas company PGNiG (48%) and another Polish company, Gas-Trading (4%).[2] Yamal-Europe was commissioned in 1999, following which Poland became an important gas transit country, while the significance of Slovakia was reduced. There have been controversies surrounding Yamal–Europe in both the distant and recent past. In 2000, a serious scandal unfolded related to the laying of a fibre-optic cable along the pipeline (*Orbán*, 2008: 76, 81). Most recently, due to the EU's Third Energy Package, the unbundling of energy production and supply interests from the network has been a source of conflict with Russia, as it has also influenced existing assets with Russian ownership. Implementing the Third Energy Package, EuRoPol GAZ handed over operation, and Poland's state-owned natural gas transmission system operator (TSO) Gaz-System became an independent system operator (ISO) in 2010. Furthermore, there were plans to build a Yamal-Europe 2 gas pipeline that never materialised. Later, instead of the original Yamal-Europe 2, the idea of a so-called inter-system connector was born. This would not have been a parallel pipeline to Yamal-Europe 1, but would have run from the Belarusian border via Poland to Slovakia. Many years later, in 2013, Russia came up with this plan again, but it was eventually dropped. Russia once again raised this issue just prior to unexpectedly abandoning South Stream – essentially a gas transit diversification project running under the Black Sea to Bulgaria and then onwards – in December 2014 (*Weiner*, 2016: 17, 27, 31–35).

In addition to the midstream business, Gazprom has a new market in Poland, since it is attempting to promote the use of natural gas – both compressed and liquefied natural gas (CNG and LNG) – as a fuel for vehicles (natural gas vehicle, NGV) in Europe that could help reduce carbon-dioxide and sulphur oxide emissions. Gazprom's expansion has been achieved in different ways, such as through the development of its own filling stations, supplying other filling stations and through specific joint projects. In the EU, the Gazprom Group has CNG filling stations in Germany, the Czech Republic and Poland (*Bieliszczuk*, 2017; *Gazprom*, 2016, n.d.; *Gazprom Export*, n.d.-b; *Gazprom Gas-Engine Fuel*, n.d.; *Gazprom Germania*, n.d.). Gazprom's "specific joint projects" brought Europe's

[2] The shareholders of Gas-Trading are as follows: PGNiG (43.41%), Przedsiebiorstwo Handlu Zagranicznego Bartimpex (36.17%), Gazprom Export (15.88%), Weglokoks (2.27%) and Wintershall Erdgas Handelshaus GmbH (2.27%) (*European Commission*, 2015).

first LNG buses to the Polish market (*Gazprom Germania*, n.d.). In 2013, the Gazprom Group (through Germany's Gazprom Germania), Poland's bus manufacturer Solbus and their distribution partner Lider Trading won a public tender to commission 11 LNG-powered city buses in the city of Olsztyn. In 2015, a similar project was implemented in Warsaw, resulting in the commissioning of 35 LNG-powered buses (*Gazprom Export*, n.d.-b). Gazprom Germania supplies the LNG and provides the necessary refuelling infrastructure. NGV buses were chosen not only because they emit considerably fewer pollutants than diesels, but are also significantly quieter (*Gazprom*, 2013a; *Gazprom Germania*, 2015b).

Lukoil opened its first petrol station in Poland in 1996. As in other countries, Lukoil was very ambitious with its expansion plan, with some 40 to 45 filling stations due to be set up in 1996 and about 200 over the following five years in Poland (*The Moscow Times*, 1996). This, however, never materialised. Lukoil owned only 116 filling stations in Poland when it sold its fuel retail businesses in Lithuania, Latvia and Poland to Austria's AMIC Energy Management in 2016 (*Forsal.pl*, 2016; *Gazeta Wyborcza*, 2016a; *petrolnet.pl*, 2016). By that time, Lukoil had already withdrawn from the Czech, Hungarian and Slovak markets. Hungarian oil and gas group Mol took over Lukoil's filling stations in the Czech Republic, while Lukoil's Hungarian and Slovakian filling stations were acquired by Norm Benzinkút, which is registered in Hungary but has some connections to Russia.[3] Lukoil was an aggressive player on the Polish market. Its low prices were the answer to the anti-Russian climate in the country (*Graniszewska*, 2016). This price strategy was also enforced in Hungary (*Weiner*, 2015: 133). Similarly as in the case of Poland, Lukoil was also struggling with high anti-Russian sentiments in Lithuania and Latvia (*TASS*, 2016).

Severstallat, the Latvian subsidiary of Russia's largest steel company Severstal, controlled by billionaire Alexey Mordashov, established the pipe producer and steel distributor Severstallat Silesia in Poland in 2008 (called Severstal Distribution since December 2014), when Severstallat acquired the assets of the Polish Technologie Buczek, including four pipe mills, two longitudinal cutting lines, a 50.72 per cent stake in

[3] This is a joint venture between Hungary's IMFA Petroleum (created by a former Hungarian representative of Yukos) and the Belize-based Normeston Trading; the latter owned half of Hungary's MET Hungary (or, to be precise, its predecessor) (see *Section 3.3*) and at least in 2009 belonged to a Russian national.

Buczek Automotive (a producer of stock for car exhaust silencers) and a 100 per cent stake in Przedsiębiorstwo Usług Transportowych Samkol (a transportation company). These companies employed a total of 260 people at that time (*Severstal*, 2008). At the time of the transaction, Severstallat had already been present on the Polish market as a supplier for four years. Severstallat argued that Poland was an important market with high growth rates, and also that it was a net importer in the flat products segment because domestic production did not meet demand. Severstallat planned for the service centre in the Polish city of Sosnowiec to serve customers within a radius of around 300 kilometres, including in the Czech Republic and Slovakia (*Puls Biznesu*, 2008).

Besides resource-based companies, software and information technology constitute another important part of Russian FDI in Poland, including the activities of Luxoft and Kaspersky Lab. Luxoft is a leading global provider of software development services and IT solutions, controlled by Anatoly Karachinsky's IBS Group (*Business Wire*, 2014). It was incorporated in the British Virgin Islands, while its operating headquarters office is located in Switzerland (*Strata*, 2016). Its Krakow office was launched in 2010. Since that time, Luxoft has experienced dynamic expansion in Poland. The first office in Wrocław was opened in 2013 (they initially worked out of a client's office in 2012 [*Gazeta Wrocławska*, 2015]), followed by a second one in 2015. Krakow holds the highest position in terms of employment in the business services industry in Poland (*wnp.pl*, 2014). The third such location is Wrocław (*Gazeta Wrocławska*, 2015), while the fourth – the Tri-City area, consisting of three cities: Gdańsk, Gdynia and Sopot. At the end of 2015, Luxoft announced the opening of its first centre in Gdańsk (*Business Wire*, 2015; *Invest in Pomerania*, 2015). Wrocław was chosen because of its great location, reasonable costs, the quality of living, easy access to highly qualified IT staff (including graduates from local universities) and (local) government support, such as the Wrocław Agglomeration Development Agency (ARAW) and the Polish Investment and Trade Agency (PAIiIZ) (*Gazeta Wrocławska*, 2015; *Luxoft*, n.d.-b). Very similar factors attracted Luxoft to Krakow and Gdańsk. Due to the development of the Krakow centre, Luxoft also decided to launch a relocation program for talented IT professionals (*wnp.pl*, 2014). In addition, in 2016, Luxoft opened a delivery centre in Warsaw so as to keep track of legislative decision-making and vital business processes. Luxoft emphasised that Warsaw also had a vast talent pool of seasoned programmers and numerous cultural

and geographic benefits (*Luxoft*, 2016). Thus, in addition to market-seeking, efficiency-seeking motives are also vital in Poland (*Kalotay et al.*, 2014: 17). Furthermore, political stability and strong rule of law, strengthened by EU membership, are also important factors, compared, for example, to China, where lack of proper intellectual property protection is a risk (*Gera*, 2013). In 2016, Luxoft had over 2,000 employees in Poland, and this number continues to grow. In 2016, about 18 per cent of Luxoft's professionals worked in Poland, compared to only 5 per cent in 2014 (*Gazeta Wyborcza*, 2016b). In CEE, Luxoft is also present in Romania and Bulgaria (*Luxoft*, n.d.-a).

Kaspersky Lab is a well-known cybersecurity and anti-virus software provider, owned by ex-Soviet intelligence officer Eugene Kaspersky. Through Kaspersky Lab Polska, Kaspersky Lab has been active in Poland since 2001. It has two offices – in Warsaw and Częstochowa, employing a total of more than 50 specialists (*Kaspersky*, n.d.).

Russia's Ekoton represents the engineering sector. It has been operating in Poland since 1998 and serving clients throughout the country and abroad. Ekoton focuses on assisting in applications for integrated pollution prevention and control (IPPC) permits, as well as preparing environmental impact assessments (EIA), ecological/environmental audits, Natura 2000 reports, environmental programs, asbestos removal plans and regional development strategies, including tourism development strategies (*Ekoton*, n.d.-b; *Prusińska*, 2010). In 2012, Prodeko-Elk became part of Ekoton with its production facilities in Ukraine, Kazakhstan, Russia and Poland (*Poranny.pl*, 2013). Ekoton currently has plants in Russia, Ukraine and Poland, producing equipment for wastewater treatment (*Ekoton*, n.d.-a).

Finally, it is important to mention the acquisition of the vodka producer and spirits distributor Central European Distribution Corporation (CEDC) of Poland by the Russian Standard Corporation. Russian Standard claimed that they had greater potential as one large company, with complementary brands, segments, import portfolios and export markets (*Roust*, 2013).

In addition to these, Poland has also been the target of a couple of unsuccessful takeover attempts made by Russian firms.

3.2. Czech Republic

It is estimated that there are some 20,000 firms operating in the Czech Republic that have a Russian owner. However, the overwhelming majority of them are rather insignificant.[4] Although Russia's share in the IFDI stock of the Czech Republic is small, there are several important companies that are in Russian hands.

Regarding the oil and gas sector, Gazprom is involved in different segments of the Czech gas sector. It supplies final customers through the Czech Vemex company and it co-owns an underground gas storage facility. The main shareholders of Vemex are Gazprom Germania (50.14%) and the Gazprombank-owned and Vienna-based Centrex Europe Energy & Gas (16.86%).[5] Gazprom Export, Gazprom's export arm, has been supplying gas to Vemex since 2006 (*Gazprom Export*, n.d.-a; *Reuters*, 2007). Initially, Vemex sold gas exclusively to large and medium-sized customers, but with the acquisition of a majority stake in Czech energy retailer RSP Energy in 2011 (renamed Vemex Energie), Vemex entered the retail and household sector of gas and electricity in the Czech Republic (*Gazprom Export*, 2011). In addition, as mentioned, the Gazprom Group owns public CNG stations in the Czech Republic as well. As of May 2017, there were over 120 public CNG stations in the Czech Republic, of which 15 were owned by the Gazprom Group (*Gazprom Export*, n.d.-a, n.d.-b). In addition, Vemex supplies automatic gas-filling compressor stations controlled by independent companies. The third owner of Vemex, MND, owned by Czech tycoon Karel Komarek's KKCG investment group, is Gazprom's partner (through Gazprom Germania) in the joint venture Moravia Gas Storage, which built an underground gas storage facility in Damborice in the Czech Republic. Construction began in 2014 and it was put into operation in 2016 (*Gazprom*, 2013b; *Gazprom Export*, 2016). The storage unit was to be used both to meet small-scale demand fluctuations and support the functions of Nord Stream, as well as Germany's Jagal and Opal gas pipelines (*Gazprom Germania*, 2015a). Gazprom intended to circumvent the EU's Third Gas Directive and use most of the storage capacities. However, finally the European Court of Justice, the EU's highest court, decided that capacities must be accessible to outside suppliers (*Reuters*, 2015a; *TASS*, 2013).

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[4] Such information is available in an unpublished Czech country study by the Prague Security Studies Institute, prepared for the project "Raising awareness of Russian soft power in Central Europe" (2016–2017), supported by the US National Endowment for Democracy (http://www.pssi.cz/russia-s-influence-activities-in-cee/kremlinleverage).

[5] Gazprom has not had control over Gazprombank for many years.

Gazprom was also engaged in the Czech gas wholesaler Gas-Invest. In 2005, Gazprom's German then subsidiary ZMB Zarubezhgaz Management und Beteiligungsgesellschaft mbH (ZMB) purchased a 37.5 per cent stake in Gas-Invest (*Weiner*, 2006: 13). Gas-Invest was active from 1995 onwards in obtaining additional supplies of Russian gas to cover peak requirement in the Czech Republic. Between 1999 and 2001, it was involved in a barter in which Russian gas was swapped for Czech goods and services related to machinery and equipment, particularly in the sphere of gas infrastructure (*Heren*, 2005). Gas-Invest was liquidated and then terminated in 2011 (*Peníze.cz*, n.d.-a). According to *Nosko* (2013), Gas-Invest was widely believed to have been a front company representing Russian interests.

In contrast, Lukoil has not been successful in the Czech Republic. Lukoil has already left the Czech retail fuel market twice. In 2003, it sold its three petrol stations (*E15.cz*, 2014). Between 2006 and 2014, Lukoil again owned petrol stations in the Czech Republic, after it had acquired a network of 44 Jet petrol stations from US oil major ConocoPhillips at the end of 2006. Lukoil was also a jet fuel supplier through the company Lukoil Aviation Czech, founded in 2007, which was mainly known among the public for its relations with Czech politicians. Lukoil Aviation Czech won a contract for jet fuel supply to the Prague Airport without a tender in 2007, when Ales Rebicek, a friend of Lukoil Aviation Czech CEO Martin Nejedly, was transport minister in the Czech Republic (*Česká televize*, 2010).[6] In 2009, the Administration of the State Material Reserves (known under its Czech acronym SSHR) signed a contract with Lukoil Aviation Czech on new kerosene reserves, which it failed to supply. As a result, in 2016, Lukoil Aviation Czech was forced to pay a high penalty (*Prague Daily Monitor*, 2016a). Lukoil Aviation Czech was at the time under liquidation and was ultimately terminated that same year (*Peníze.cz*, n.d.-b). Nejedly had a 40 per cent stake in the company.

Russia holds a strong position in the Czech steel sector. Controlled by Roman Abramovich, Alexander Abramov and Alexander Frolov, Evraz, a major metallurgical and mining company, bought the Czech Vítkovice Steel, a manufacturer of rolled steel products, during the privatization process conducted in 2005 through its Cyprus-

[6] In 2008, Lukoil financed the translation of a book by President Vaclav Klaus. In 2015, the Presidential Office arranged a diplomatic passport for Nejedly. Nejedly is now a key adviser to Czech President Milos Zeman. Nejedly greatly contributed to the establishment of the Party of Civic Rights that organised Zeman's presidential campaign. Nejedly is seen as an intermediary through whom Russians extend their influence in the Czech Republic (*Česká televize*, 2010; *Prague Daily Monitor*, 2016b).

registered subsidiary Mastercraft. Vítkovice Steel took on the new name Evraz Vítkovice Steel (EVS). The aim of entering the "closed" European market is said to be the motivation behind this acquisition. Evraz sought to increase its market share, secure its client base and acquire additional margins from the sale of higher value-added steel products (*Evraz*, 2005; *Krainová*, 2005). Subsequently, the company grew for a few years, but was severely affected by the 2008–2009 crisis. In 2014, a private investor group, including five Cyprus front companies, bought EVS. Evraz refused to identify the beneficial owners of the Cyprus entities (*Helmer*, 2014). The new owner assumed EVS's debts and expressed its intention to develop the company. Next, in 2007, EVS acquired the Czech company Nikom, which converts vanadium oxide produced by Russia's Evraz Vanady Tula into ferrovanadium, used by the steel industry worldwide. Renamed to Evraz Nikom in mid-2012, the company has been in the hands of the Luxembourg Evraz Group since the end of 2012.[7]

In 2004, the year of the Czech Republic's accession to the EU, OMZ, whose principal shareholder is Gazprombank, acquired three Skoda Holding subsidiaries, Skoda Jaderne Strojirenstvi (Skoda JS), a supplier of technologies for the nuclear power industry; Skoda Hute, a company with a focus on the production of steel and pig-iron forgings; and Skoda Kovarny, a dominant world leader in the manufacture of four-stroke diesel motor cranks and wind power station shafts. Reportedly, the acquisition represented the biggest post-1989 Russian investment in the Czech Republic (*New Europe*, 2004). The related technology and easier access to East European markets were reportedly the reasons behind the Russian industrial group entering the Czech market (*Power Machines*, 2004). In comparison to the highly profitable Skoda JS, Skoda Hute and Skoda Kovarny were subsidiaries that did not bring in much profit and instead incurred debt. In 2007, the latter two were merged and renamed Pilsen Steel, which was finally bought in 2010 by the Luxembourg-registered United Group, established in 2008, with an operating office in Moscow and belonging to Russian investor Igor Shamis. At the time, the share of Russian orders of Pilsen Steel was less than 15-20 per cent, which the new owner wanted to increase (*Pilsen Steel*, 2010). So far, Skoda JS has participated in the construction of nuclear power plants in the Czech Republic, Slovakia, Hungary, Bulgaria and Germany. In 2016, its major export destinations were Slovakia, Hungary, Ukraine

[7] Evraz Group S.A. is a holding company controlled by the London-headquartered Evraz plc.

and Sweden. Skoda JS employs around 1,100 employees (*Škoda JS*, 2017). Skoda JS has a subsidiary in Slovakia, Skoda Slovakia (see *Section 3.4*), and also holds ownership stakes in the Czech ÚJV Řež (concentrating primarily on design and engineering, supporting the safe and efficient operation of nuclear and classical power plants, fuel-cycle chemistry, as well as on providing complex services for radioactive waste management) and the Russian MKHO Interatomenergo (providing services for the design, installation and maintenance of integrated security systems) (*Škoda JS*, n.d.; *Traskon*, n.d.; *ÚJV Řež*, n.d.). In 2007, OMZ acquired the Brno-based Cheteng Engineering (formerly Chepos), active in design, procurement and construction services (*EDB*, n.d.). Cheteng was expected to grow rapidly and recruit over 400 new employees to add to the initial 90, but this is not how matters developed, and the company ended in liquidation. Gazprombank, OMZ's principal shareholder, did not help Cheteng. Gazprombank did not even provide financial guarantees for the projects and imposed unenforceable conditions (*Moravského hospodářství*, 2014).

In addition, Russian FDI investors have been engaged in a couple of other important FDI projects in the Czech machinery sector. The first foreign assets of ChTPZ Group (Chelyabinsk Tube-Rolling Plant) or ChelPipe, controlled by Andrei Komarov, was MSA, a manufacturer of pipeline valves in the Czech Republic, which ChelPipe's asset manager, the Luxembourg-based Arkley Capital, acquired in 2006 (*New Europe*, 2006). MSA was important for ChelPipe as MSA's products meet the needs of Russian companies operating trunk pipelines (*MetalTorg.ru*, 2006). Interestingly enough, shortly after the deal, in 2006, the 25-year-old son of the Minister of Industry and Energy at the time, Viktor Khristenko, was elected as the head of MSA's supervisory board (*Cherkasova*, 2006).

Urals Mining and Metals Company (UMMC, also known as UGMK according to its Russian acronym) acquired a 51 per cent stake in the Czech aircraft manufacturer Aircraft Industries, formerly LET Kunovice, in 2008, which it increased to 100 per cent in 2013. Established in 1999, UGMK is a top Russian producer of copper, zinc, coal, gold and silver. Its principal owner is Iskander Makhmudov. Aircrafts of the L 410 series are Aircraft Industries' main products. It also deals with the service and maintenance of L 410 aircrafts, selling spare parts, aircraft modification and modernisation. Aircraft Industries possesses unique know-how, a well-developed technological background and

a highly qualified staff (*OS KOVO*, 2016). With the acquisition, UGMK sought to diversify and branch out into new businesses, including regional air services and short-range aircrafts. Since Russian domestic airline industry concentrates on long- and mid-range projects, the Czech short-range aircrafts were seen as possibly being able to fill a niche (*Finance.cz*, 2008). The main target markets comprise Russia, Southeast Asia, South America and Africa (*Aircraft Industries*, n.d.-b). When UGMK arrived on the scene, Aircraft Industries produced 8-10 aircrafts a year and hoped to raise the amount to 15-18 (*bne's Eastern Europe M&A weekly newsletter*, 2008). This goal was achieved, but the rouble crisis and Western sanctions have seriously hit the company. In 2013, Aircraft Industries still sold 20 aircrafts (mostly to Russia), but only 13 in 2014 (of which seven went to Russia). In 2015, Aircraft Industries only sold three aircrafts to Bangladesh and one to Algeria. Meanwhile, it did not deliver a single aircraft to Russia. However, in 2016, the Russian market experienced a revival and purchased nine aircrafts (*Aktuálně.cz*, 2016; *E15.cz*, 2016a, 2016b; *Vondrášek*, 2017). In 2015, the company reported an average of 942 employees. Aircraft Industries also operates Kunovice's private international airport and an aviation high school (*Aircraft Industries*, n.d.-a).

There is one other Russian-involved company in the Czech Republic related to the nuclear sector. In 2011, TVEL, belonging to the Russian Rosatom Group, and the Czech engineering company Alta Invest formed a joint venture, Alvel, majority owned by Alta, with the aim of localising fuel services for Czech and European nuclear power plants and promoting TVEL fuel types designed for Western reactors (*Nuclear Engineering International*, 2011). Rosatom's representative office responsible for the Central European region is based in the Czech Republic (called Rosatom Central Europe), with a branch located in Hungary.

The next important Russian-owned company deals with software solutions and electronic production. Sistema's company in the Czech Republic, NVision Czech Republic, formerly called Strom telecom, is the main research and development centre of Russia's NVision Group OSS/BSS (operations support systems, OSS; business support systems, BSS) division. Controlled by Vladimir Yevtushenkov, the Russian Sistema conglomerate is mainly interested in information technology, telecommunications and microelectronics in the EU. NVision Czech Republic is both a supplier of end-to-end systems and services to telecom operators and a manufacturer of computing and

telecommunication equipment (*NVision Czech Republic*, n.d.). The Czech company has for years been a prime asset of the NVision Group, while previously – of the Sitronics Group. Sitronics was established in 2002 as Kontsern Nauchnyy Tsentr (in English – Concern Scientific Centre), consisting of the Russian microelectronics producer NIIME & Micron and Strom telecom (*TASS*, 2011). In 2007, the name Strom telecom was changed to Sitronics Telecom Solutions, Czech Republic, and finally, at the end of 2013, it was renamed to NVision Czech Republic after the Russian RTI, a Sistema subsidiary (established by Sistema and Bank of Moscow in 2011), became the owner of Sitronics in 2012 and Sitronics and the NVision Group integrated their ICT assets. This enabled RTI to gain control over the NVision Group. In 2015, MTS, another Russian subsidiary of Sistema and the largest mobile service provider in Russia and the Commonwealth of Independent States (CIS),[8] bought the NVision Group.

In the light industry, the Russian workwear manufacturer Vostok-Service has pursued successful international expansion through the Czech company Cerva Export Import, bought by Vostok-Service in 2006. Cerva was the first foreign asset of Vostok-Service, owned by former Russian parliamentarian and member of the ruling United Russia party Vladimir Golovnev. Several reasons were given to explain why Vostok-Service chose the Czech company. Firstly, they claim the Czech people's mentality is closer to theirs than to, for example, that of the Germans. Secondly, Cerva was growing quite fast. Thirdly, Vostok-Service also considered it to have potential for further development, as Cerva had been oriented toward a market interested in cheap products, with its main product being gloves. Vostok-Service believed that Cerva could tap into the market of better-quality products and expand its range of products (*Pražský Telegraf*, 2013). Indeed, Cerva turned into an international holding company (*Dmitriyeva*, 2017). Cerva really started to expand in 2008 when it became the 100 per cent owner of the Hungarian workwear manufacturer Vektor Munkavédelmi, and took a majority stake in the Italian Calzaturificio Panda Sport, producing work and sports shoes. In the 2010s, Cerva continued buying production assets abroad. In 2012, it acquired 51 per cent of Belarus' Stetskevich-Spetsodezhda. Cerva took over Otto Schachner in Denmark in 2013 and Finland's BockMann in 2016. In sales and marketing, Cerva either established 100

[8] The 12 non-Baltic former Soviet republics still tend to be referred to as the CIS countries, though, currently, it is a regional organisation consisting of only ten post-Soviet republics, since Georgia and Ukraine are not members of the CIS.

per cent subsidiaries and joint ventures or made acquisitions. Cerva's joint venture in Slovakia was set up in 1996. It was rebranded to Cerva Slovensko in 2010. It is currently 100 per cent owned by Cerva. Cerva formed subsidiaries in Hungary in 2010 (Cerva Magyarország), in India in 2012 (Cerva India) and in Poland in 2012 (Cerva Polska). In contrast, in 2011, Cerva Romania was opened in Romania in the form of a franchise, but finally, in 2015, Cerva became the majority shareholder. In 2013, Cerva also established joint ventures in Belgium (Cerva Belgium) and Turkey (Cerva Turkey), with 51 per cent ownership. However, Cerva Turkey became 100 per cent owned by Cerva in 2015. Also in 2015, Cerva acquired Rehamij Nederland, an important distributor and importer of personal protective equipment (*Černá*, 2015; *Cerva*, n.d.; *Kuchtová*, 2015; *Stetskevitch*, n.d.; *Švec*, 2016; *Zauba*, 2018).[9] Since 2008, Cerva has actively promoted the Cerva brand in Russia and the CIS through Vostok-Service and achieved success in a short period of time (*Dmitriyeva*, 2017). In 2013, it was said that Cerva used Czech sales channels for all products it produced in the Czech Republic, and was completely independent from Russia. Cerva forms its own strategy. In Russia, Cerva products are tagged as "Made in the Czech Republic" because of the good image attached to Czech products. Cerva positioned itself as a Czech company. In former years, they even avoided advertising that Russian capital was behind it. However, nowadays, Cerva has ceased to consider itself a Czech company; rather, it portrays itself as a European one (*Pražský Telegraf*, 2013).

Two Russian banks – the First Czech–Russian Bank (FCRB) and Sberbank – have owned subsidiaries in the Czech Republic. Following two unsuccessful attempts, the Czech central bank granted an operating license to the FCRB subsidiary, ERB, in 2008. FCRB was founded in 1996 with majority shares by the now-defunct Czech Investment and Post Bank (IPB Bank) and was later controlled by Russian businessman Roman Popov. In 2009, ERB opened its headquarters in Prague. Its various challenges included the Czech Republic's accession to the EU and the dented image of the Russian banking sector. Thus, not only did ERB aim to break into the European trade-finance market, but it also intended to improve the image of Russian banks. They considered themselves to have a good understanding of Russian risks, the Russian way of doing business and the mentality of Russian clients. Also, they did not see much Russian competition in the

[9] In December 2017, it was announced that Rehamij Nederland would assume all business activities conducted in the Benelux market, and Cerva Belgium would be renamed to Midex Safety, which would no longer be a member of the Cerva Group, but only a distributor of Rehamij Nederland and a direct seller of the Cerva and Rehamij branded goods to end users (*Švec*, 2018).

Czech Republic (*Global Trade Review*, 2009). After they had opened, Popov stated that once they had established themselves in the Czech Republic and Slovakia, they planned to expand into Italy as well. They also intended to open a branch in Vienna (*Kominek*, 2009). However, Western sanctions and Russian counter-sanctions have seriously hit ERB Bank. Therefore, the bank was looking to diversify (*bne IntelliNews*, 2016). Nonetheless, the Central Bank of Russia (CBR) revoked FCRB's licence in July 2016, and ERB Bank also lost its license in October 2016, the latter because of major shortcomings in the areas of credit, market and liquidity risk management, the lack of necessary mechanisms to prevent money-laundering, the financing of terrorist activities or making non-standard deals (*Lazarová*, 2016). When the Czech Financial Market Guarantee System (GSFT) started to compensate ERB clients in October 2016, it turned out 22 per cent of the total 5,400 clients were foreigners from 48 different countries, but mostly from Russia (*EFDI*, 2017). ERB Bank was one of the smallest players on the Czech market. It only had branches in Prague and Karlovy Vary in the Czech Republic (*Blesk.cz*, 2016). The broad public knew FCRB principally due to it having provided a loan to Marine Le Pen's French National Front Party.

In 2012, Sberbank, Russia's largest lender controlled by the CBR, became the owner of Volksbank International AG (though the transaction did not include the Romanian subsidiary). It bought operations in Slovakia, the Czech Republic, Hungary, Slovenia, Croatia, Serbia, Bosnia and Herzegovina and also Ukraine. With this deal, Sberbank expanded beyond the former Soviet Union. In the Czech Republic, Sberbank has 28 branches with around 840 employees (*Sberbank Europe*, n.d.-a). Although Russian clients were said to be important for Sberbank, it has made it clear since the beginning that they are not its sole focus in the Czech Republic (*Hovorka*, 2013).

Finally, Russians have established a palpable presence in the Czech real-estate industry. First of all, they have very significant capital investment in hotels and other real estate in the famous Karlovy Vary spa resort.

3.3. Hungary

Statistics on Russian FDI in Hungary show only a few major transactions, including the unsuccessful takeover attempt of Mol by Surgutneftegaz, Russia's third-largest oil producer, and a few changes connected to the Rakhimkulov family, namely Megdet Rakhimkulov and his two sons.

For almost 20 years after 1989, Russian corporate presence in Hungary was facilitated through the activities of Megdet Rakhimkulov. He established his fortune in the first half of the 1990s as a senior manager at Gazprom and as its Hungarian representative. In those years, Budapest was by far Gazprom's biggest export destination in the CEE region and the company's management attempted to maintain some of its revenues in Hungary. Not surprisingly, Gazprombank (at the time Gazprom's subsidiary) purchased a Hungarian bank, General Banking and Trust (ÁÉB), as early as in 1996, which was later gradually taken over by the Rakhimkulov family's companies. Rakhimkulov allegedly played an important role in the attempts made by Vyakhirev's management to outsource Gazprom's assets into private property in the late 1990s. Rakhimkulov was involved in facilitating the purchase of stakes in two Hungarian (petro)chemical plants, TVK (now Mol Petrochemicals) and BorsodChem.[10] Rakhimkulov was also associated with Surgutneftegaz's 2009 attempt at a hostile takeover of Mol. Despite the end of Rakhimkulov's influence in Gazprom following the arrival of Alexey Miller, the Russian businessman preserved control over his affiliated Hungarian assets, such as ÁÉB. Thus, Rakhimkulov became an independent actor with a broad nexus within the Hungarian elite and considerable financial and institutional capabilities. In spite of his controversial track record, many Russian businessmen and politicians allegedly trusted him in their dealings with Hungary. Hence, it has often been difficult to decide whether he made his investment decisions independently or they were indirectly linked to third-party Russian interests. He was also an intermediary, and, in some alleged cases, a shadow owner who could accumulate ownership in companies without being noticed and would later resell such shares to the real Russian owners. His influence reached its zenith in the mid-2000s. Over the next years, he gradually retired and formally moved back to Moscow. His two sons took over much of the family's business activities in Hungary and Cyprus. In the 2000s, the Rakhimkulov

[10] Since 2003, Gazprom has not held any stakes in either company.

family rationalized its portfolio, decreasing their shares of some sectoral assets. All the chemical and machine-industry plants and even ÁÉB were sold in the mid-2000s. Today, the Rakhimkulov family primarily seems to play the role of financial investors. For a long time, Megdet Rakhimkulov and his two sons had held a combined stake of around 8.5 per cent in Hungary's leading retail bank, OTP Bank, considered a portfolio investment, constituting by far the biggest item on the list of Russian investments in Hungary (*Weiner*, 2015; *Deák and Weiner*, 2016). End-September 2018 data show that Kafijat, the well-known Hungarian company of the two Rakhimkulov brothers, has a 7.8 per cent stake (with a voting power of 7.9 per cent) in OTP (*OTP Bank*, n.d.).

Gazprom's main ownership interest in Hungary is Panrusgáz, an intermediary joint venture for Russian gas imports via Hungary's major long-term gas supply contract. This small contract was entered into with Centrex Hungary, an affiliate of the Gazprombank-owned and Vienna-based Centrex Europe Energy & Gas. The original motivation behind Panrusgáz's complicated scheme was likely Gazprom's desire to keep the gas sale revenues abroad, outside Russia, as generally suggested above. Nonetheless, whatever rationale was behind the intermediary, it hardly seems reasonable today. It does not pursue any practical activities except for transferring wholesale gas with relatively low margins. Panrusgáz established a small office in Hungary, which also functions as Gazprom's local office.

Furthermore, among the Hungarian gas traders, two have Russian owners. One is the above-mentioned Centrex Hungary and the other company is WIEE Hungary, a subsidiary of the Swiss Gazprom Schweiz. Until recently, there was also a third trader, an obscure one, called MET Hungary, which had some Russian interest. In the early 2010s, MET had opaque privileges on the Hungarian gas market, provided by the Hungarian government. This resulted from a clearly discriminative political decision. However, the beneficiaries of the high profitability years remain only partially identified (*Deák and Weiner*, 2016).

Gazprom's other plans and projects in Hungary include failures. Investment in Hungary's oil industry has also involved many failed efforts, such as those of Yukos, Surgutneftegaz, Lukoil and Gazprom Neft. Yet, Gazprom Neft, Gazprom's oil arm and Russia's fourth-largest crude producer, is still active in Hungary via Serbia's NIS oil company, the majority of which is owned by Gazprom Neft.

Apart from Russia's presence in the energy sector, there are only a limited number of important assets under Russian ownership. In Hungary, there have only been two Russian-owned banks, including, in the past, ÁÉB, and, now, a subsidiary of Sberbank. While ÁÉB passed into Russian ownership through privatization, Sberbank entered the Hungarian market as part of a regional acquisition. Besides these, Russian banks have only been present in Hungary through representative offices. Naturally, the Rakhimkulov family's stake in OTP should also be mentioned in this context.

According to Megdet Rakhimkulov, at the time when Gazprombank acquired ÁÉB, Gazprom identified Hungary as a strategic country and Mols as a strategic partner. Several large-scale international projects between Russia and Hungary were agreed upon at the governmental level. Gazprom thus purchased ÁÉB, which, as Rakhimkulov claimed, was practically teetering on the edge of bankruptcy. However, in the end, according to Rakhimkulov, Gazprom's new management changed its investment strategy for Hungary and the region, and ultimately lost interest in ÁÉB (*Figyelő*, 2004). Gazprombank pulled out of ÁÉB in 2005. Following this decision, commercial banking business was not pursued for a number of years. ÁÉB was the eighth largest bank in Hungary (*New Europe*, 2003). At the end of 2005, ÁÉB had a total of only 17 branches (in Budapest and other Hungarian cities). Previously, about 70 per cent of ÁÉB's operations had been devoted to Gazprom and Gazprombank. In 2004, this proportion accounted for only about 8-10 per cent, but a large part of the operations were still linked to Russian clients. ÁÉB served more than 30,000 clients, 70 per cent of which were households, while 30 per cent were corporate (*Simon and Szép*, 2005). ÁÉB branches were taken over by Hungarian Volksbank, which was a subsidiary of the Austrian Volksbank.

Interestingly, traces of historical continuity can be observed in the fact that some of the Hungarian branches of Sberbank Hungary were previously owned by ÁÉB. The primary objective of Sberbank Hungary is to provide comprehensive services to Russian private and corporate clients, and to enhance trade between CEE countries and the CIS (*Sberbank Hungary*, n.d.). Admittedly, for many years the Hungarian subsidiary could not prove itself to have been a successful investment for Sberbank. Though the company's losses had diminished greatly, it had been a lossmaking operation. Finally, in 2017, Sberbank Hungary delivered its first profits since 2012 (*Szász*, 2018). Press reports suggested that Moscow leaders had not been altogether satisfied with the

prevailing state of affairs at the bank. In the mid-2010s, the media wrote that Sberbank would withdraw from Hungary, but the bank denied these claims (*Csurgó*, 2015; *Index*, 2015; *Reuters*, 2015b; *Stubnya*, 2015; *Szakonyi*, 2015). After closing many of its branches, Sberbank currently operates only 27 branches in Hungary (*Sberbank Europe*, n.d.-b). Sberbank Hungary has companies in Hungary dealing with real-estate sales and management (East Site, Károlyi Ingatlan 2011 and V-Dat).

In 2006, the Rakhimkulovs announced they had a stake of just above 5 per cent in OTP Bank. For a while, in 2008, they even had more than a 10 per cent stake. It is difficult to establish the extent to which this portfolio can be regarded as a strategic investment. According to the participants' narrative, their share is only a financial asset without any relevance for the decision-making process (*Weiner*, 2015; *Deák and Weiner*, 2016).

Additionally, there is a strong Russian presence in Hungarian metallurgy, and there have also been a few Russian capital-related projects in Hungary's machinery worth mentioning. One large Russian (and, perhaps, also Ukrainian) industrial investment in Hungary is the ISD Dunaferr steel plant in Dunaújváros situated some 70 kilometres south of Budapest. By the end of the 1990s, Hungarian metallurgy was struggling, due to their low scale of economy, lack of capital and inefficient management. In light of approaching EU accession, privatization was the only feasible way to save the factory. The government had neither the money nor the legal possibilities to subsidize it further. For external producers, especially those from the former Soviet Union, these capacities offered a means of bypassing EU protectionism of the steel market. However, due to the changes in world steel market dynamics, these synergies have since lost much of their relevance, once again reemphasizing the strategic weaknesses of these factories (*Deák and Weiner*, 2016). At the end of 2003, Dunaferr was tendered and bought by a consortium, consisting of Ukraine's Industrial Union of Donbass (ISD) and the Swiss Duferco International Trading Holding. Severstal also submitted a bid. However, a change of ownership occurred in late 2009, when Russian investors obtained a 50 per cent plus two stake in the metallurgical assets of ISD. Later, as a creditor, Russia's state-owned Vnesheconombank (VEB) practically controlled ISD, but in 2017, Hungarian media sources suggested that Dunaferr had a new Russian owner, Suleyman Kerimov, a

Russian billionaire and representative of the Republic of Dagestan in the Federation Council of the Federal Assembly of Russia (*Vg.hu*, 2017).

In the same sector, though not in production but in sales, a Hungarian affiliate of the Russian mining and metals company Mechel has played some role. The company, called Mechel Service Hungary, has sold Mechel's steel products to Hungarian customers, but is now under liquidation.

Another Russian-related company is VBH Budapest, established in 1992, a wholesaler and retailer of metal fittings. It is the Hungarian subsidiary of the German VBH Holding, a market leader in the fittings industry in Europe, majority-owned by the Russian businessman Viktor Trenev.

In the Hungarian machine-building industry, in light of the construction of new units at Hungary's Paks Nuclear Power Plant (Paks II) by the Russians, the most relevant company with Russian involvement is Ganz Engineering and Energetics Machinery, owned by TsKBM, a part of Rosatom's machine-building division Atomenergomash. Ganz Engineering and Energetics Machinery is involved in the manufacture and installation of hydromachines, nuclear power station machinery and oil drilling equipment. Paks II is not an FDI issue, but the single most solid example of Russian presence in Hungary. Its size is roughly three times bigger than the highest estimates for total Russian-related investments in Hungary. If Hungary fully utilizes the Russian credit line, it will create a direct government-to-government channel on a liability equal to 10 per cent of Hungarian GDP (*Deák and Weiner*, 2019: 141).

The activities of Uraltrak are also related to the machine industry. Established in 1990, it is the only official Hungarian dealer of Russia's Chelyabinsk Tractor Plant–Uraltrak, owned by the Russian state-owned tank and railway car manufacturer Uralvagonzavod. Chelyabinsk Tractor Plant is involved in the engineering and production of industrial tractors and engines.

Renova Group, whose beneficial owner is Viktor Vekselberg, a Russian tycoon, has been present in Hungary over the years with three Swiss high-tech and engineering groups (Sulzer, Oerlikon and Schmolz + Bickenbach), in which it owns significant or controlling stakes. However, Sulzer's Hungarian subsidiary, Sulzer Pumps Wastewater Hungary, was sold in 2013. Under its new name, Zultzer Pumpen, the company

continues its activities in the sales, service and operation of pumps, mixers, flow boosters, fans and blowers. Of the production sites of the Oerlikon Group, one is located in Hungary. Oerlikon Eldim (HU) produces honeycomb products used in aero engines. The third subsidiary, Schmolz + Bickenbach Magyarország is a wholesaler of specialty steels deriving from the group's mills.

Interestingly, Russians also have some link to the Hungarian electronics industry as Rosneft holds a very minor stake in Orion Electronics that provides electronics manufacturing, marketing and distribution services.

Another relatively widely known Russia-owned company is LIT Budapest, incorporated in 2006, dealing with disinfection technologies, including the use of UV in the treatment of drinking water, wastewater, technological water and water for swimming pools and spas. The company's main activities encompass the sale and installation of equipment, maintenance and servicing. Russia's LIT is reportedly among the world's top three developers and manufacturers of UV systems for water, air and surface disinfection.

The activities of Russian investors in the Hungarian logistics and transportation industry have been paved with failures. An exception is GEFCO Hungary, a subsidiary of the French GEFCO, 75 per cent owned by Russian Railways RZD. GEFCO Hungary was established in 2006. With its headquarters in Budapest, its logistics base is located in Biatorbágy, a village near the capital. In 2016, the number of employees rose to reach over 70 (*GEFCO*, n.d.). GEFCO offers a wide range of logistics services and transport solutions by road, sea, air and rail.

The presence of Russian residents in Hungary's real-estate market is a visible phenomenon. Although Hungary is not among the top destinations for residential real-estate purchases by Russians, Russian citizens were first among non-EU foreigners buying residential real estate in Hungary for many years until 2014. However, since 2015, Chinese buyers have largely overtaken the Russians.[11] Budapest and Zala County in the country's westernmost region (with special focus on the spa city of Hévíz) are the most attractive destinations for Russian residential real-estate owners. In contrast, the 232-room Lotus Therme Hotel & Spa, the only five-star hotel in Hévíz, can serve as an

[11] EU citizens, in contrast, are no longer obligated to obtain permits. The five-year period of derogation, which had allowed Hungary to impose such a requirement on EU citizens, ended on 1 May 2009.

example of the presence of Russians in the Hungarian hotel and spa industry. Hungary is interesting for Russian tourists primarily because of medical tourism.

Russian FDI in Hungary could have been much larger than it is at present, but – similarly as in the case of Poland – Russian investors have been involved in a couple of unsuccessful takeover attempts in Hungary, which failed due to local resistance to Russian capital.

3.4. Slovakia

In Slovakia, Russia has quite moderate FDI activities and involves more stories of failure than success. However, the share of FDI from countries with lax transparency standards for ownership structures (Cyprus, Lichtenstein and Luxemburg) and, therefore, the possible involvement of Russian capital, remain relatively high in Slovakia (*Takáč*, 2019: 222).

In the gas sector, Gazprom is active only through Vemex Energo, founded in the Czech Republic in 2003 to trade in gas and electricity. Vemex Energo should not be confused with the above-mentioned Vemex Energie of the Czech Republic. Vemex Energo was a subsidiary of the Czech Vemex, but Gazprom Germania acquired Vemex Energo in 2018 (*Antimonopoly Office of the Slovak Republic*, 2018). The Gazprom joint venture, Slovrusgas, a middleman gas trader, went into liquidation in 2005 and was dissolved in 2010. Slovrusgas was established during the last months of Vladimir Meciar's premiership in 1998 (*Nosko*, 2013). It received the right to import gas above the volume agreed upon in the Russian long-term gas supply contract. It was also agreed that Gazprom would spend up to 40 per cent of its gas sales revenues on buying Slovak goods and services and selling them on the Russian market. However, this deal proved to be problematic. Furthermore, it turned out that gas transit through the planned inter-system connector pipeline, as stated above in relation to the Yamal-Europe gas pipeline, would be handled by Slovrusgas (*Orbán*, 2008: 51, 57). Nonetheless, Gazprom could have played a role in Slovakian gas transit, but in 2005 it decided not to exercise the option to buy a 16.3 per cent stake in the Slovak Slovensky Plynarensky Priemysel (SPP), due to the unclear benefits of the deal and plans to develop the North European gas pipeline (later called Nord Stream). In the mid-2000s, SPP, an integrated gas company

(excluding exploration and production), covering gas storage, transmission, distribution and trade, launched an extensive restructuring (unbundling) operation in accordance with EU requirements (*Weiner*, 2006: 20).

In the oil sector, although Yukos took over a 49 per cent stake in Slovakia's oil transporter Transpetrol during the privatisation process conducted in 2002, the Slovakian state bought it back in 2009. In 2001, Yukos emphasised that increasing oil production and securing sales for Russian and Kazakh oil were Yukos' main motives for interest in Transpetrol. Yukos stated that extensive technical measures had to be taken to utilise Transpetrol's unused capacities and a strong oil producer was the guarantee for such an investment. Furthermore, Yukos believed that Transpetrol, which was at the heart of the regional oil pipeline system, would make it possible to work with neighbouring oil pipelines and open new oil transport opportunities, above all, reversing the flow of the Adria oil pipeline between Hungary and Croatia to gain access to the Croatian oil terminal Omišail and from there to the Balkans and, for example, to the US. In addition, Yukos thought that by accessing Transpetrol it could improve its position in negotiations with the Czech Republic and Germany on oil deliveries to Germany (*Špáni*, 2001). Another failure relates to Lukoil, which, as mentioned, sold its Slovakian filling stations.

Sberbank's activities were also discontinued in Slovakia. In August 2017, its subsidiary Sberbank Slovensko was merged into Prima banka Slovensko. Sberbank had 39 offices in Slovakia.

In contrast, Slovakia has performed an important role in the activities of UTair, Russia's No. 1 helicopter operator and world leader in the helicopter market in terms of fleet size and carrying capacity. UTair is represented in the foreign markets by its subsidiaries in India (UTair India, since 2005), Slovakia (UTair Europe, since 2006) and Peru (Helisur, since 2008). In 2006, UTair explained that it had decided on Trenčín because the local residents had a lot of experience working with helicopter services, but also because people knew Russian culture and many spoke Russian (*Zoznam.sk*, 2006). UTair's main base in Europe is the international airport at the spa town of Piešťany in Slovakia. UTair Europe's helicopters are used for aerial work mostly in inaccessible terrain.

Finally, as indicated, Skoda JS of the Czech Republic also runs a subsidiary in Slovakia. Skoda Slovakia was founded in 1995 and deals with the construction, maintenance, repair, modernization and decommissioning of facilities in nuclear energetics and of hydropower plants and in classical energetics, chemical, petrochemical and heavy industry, as well as trading and transport (*Škoda Slovakia*, n.d.).

Aside from these, Atomstroyexport, the foreign trade engineering company of Rosatom, as well as the general contractor for Hungary's Paks II, has also participated in a couple of very important non-FDI projects in Slovakia (regarding the Mochovce and Bohunice nuclear power plants, partly with Skoda JS).

3.5. Slovenia

Finally, Slovenia has also attracted some Russian FDI inflows. The first serious Russian FDI investor in Slovenia was the Kemerovo coking coal plant, known as Koks, one of Russia's leading producers and exporters of merchant metallurgical coke. Koks is part of the Industrial Metallurgical Holding, owned by the family of the State Duma deputy Boris Zubitsky. In 2007, through privatization, Koks bought the majority of the SIJ Group, the largest Slovenian vertically integrated metallurgical group. SIJ was one of the few non-global steel companies in the EU. As a raw material supplier, it was Koks' goal to enter the market of finished products, used by the Slovenian industry (*Lesjak Tušek*, 2007). On the other hand, vertical integration was crucial for the development of SIJ, as it is very sensitive to fluctuations in raw material and energy prices (*SPIRIT Slovenia*, 2007). It was contended that Koks and the SIJ Group were complementary and not in competition (*Warga*, 2007). Among the synergy effects, the possibility of increasing sales in Russia was mentioned, as SIJ's focus was on Western markets (*Lesjak Tušek*, 2007). In 2012, Koks explained that making steel in Russia would be too expensive, and producers in Russia also lacked the know-how necessary for the production of special kinds of steel (*SPIRIT Slovenia*, 2012).

In Slovenia, Sberbank operates a network of only 12 branch offices. The Slovenian Sberbank unit achieved portfolio growth when in 2014 it took over the retail loan portfolio of Slovenia's Probanka during the latter's controlled liquidation (*Ljubljanska borza*, 2014). As discussed above, Sberbank has had operations in all five discussed CEE

countries, except for Poland. While the Czech Republic is considered to be a key market, Sberbank has viewed Hungary, Slovakia and Slovenia as small markets from which it could withdraw. Nonetheless, despite Sberbank's such intention, it has so far only left the Slovakian market (*The Slovak Spectator*, 2015; *The Slovenia Times*, 2015).

In addition, Russia has some interest in Slovenian tourism. In 2012, Platanus, a Slovenian firm owned by a Russian citizen and incorporated in 2010, bought a majority stake in the Maribor-based tourism company Terme Maribor.

Slovenia is one of Gazprom's smallest gas markets, but it could have received significant amounts of Russian FDI and gained an important transit role if the South Stream gas pipeline had been built. Thus, in 2012, the Slovenian–Russian joint project company Južni tok Slovenija was established to supervise the Slovenian South Stream section. Other plans were also considered relating to the South Stream project. However, in 2012, Gazprom Telecom, offering telecommunication and internet connectivity services and operating as a subsidiary of Gazprom, and Slovenia's Comita, developing technologies in the energy and telecommunications sectors, created the South Stream Telecom joint venture in Switzerland for the operation and provision of integrated telecommunications services at main communication lines along the entire South Stream gas pipeline (*Gazprom*, 2012). In 2014, plans between Comita and Gazprom were further developed with the possibility of setting up a joint venture aimed at comprehensively developing the NGV sector in the South Stream project countries (*Gazprom*, 2014; *RWR Advisory Group*, 2016). After abandoning South Stream, Comita said in 2015 that they were examining the option of implementing the joint South Stream Telecom project with Gazprom within the TurkStream framework, a project substituting South Stream, which would have run from Russia to Turkey across the Black Sea (*TASS*, 2015) but still lack a route to CEE.

In 2009, media suggested that Gazprom might be interested in acquiring Slovenia's largest fuel retailer Petrol (*Delo*, 2009; *RWR Advisory Group*, 2016; *The Himalayan Times*, 2009), but this was never carried out. In the early 2010s, plans to cooperate in terms of the supply and distribution of oil products in Southern Europe and the Balkan states were also disseminated. For this purpose, Gazprom Neft and Petrol signed a memorandum of understanding in 2011 (*3e-news*, 2011; *Gazprom Neft*, 2011).

4. Summary and conclusions

This paper reaffirms that, generally speaking, Russian investment in the five CEE countries is dominated by market-seeking and, to a lesser extent, efficiency-seeking projects carried out by state-owned or state-related private oil and gas, steel and nuclear energy firms. Additionally, there are a limited number of innovative Russian private companies on the market (see *Kalotay et al.*, 2014, 2016).

As extant theories of international investment – with the exception of Dunning's eclectic paradigm – have limited explanatory power concerning the activities of Russian multinationals in the five CEE countries, and can hardly even explain the existence of such firms, we – following *Kalotay et al.* (2014, 2016) – analysed the ownership advantages of Russian investors primarily by using the eclectic paradigm, duly adapted to the specifics of the discussed group of companies. Contrary to findings in the literature on other emerging multinationals (*Narula*, 2006; *Mathews*, 2002), we found only traces of acquiring competitive advantages or ownership advantages. Rather, we identified investment aiming at exploiting existing advantages. This may be due to the fact that there is a very small number of this type of acquisition targets in the five CEE countries. As for Russian firms' asset-based advantages, it is obvious that their access to domestic raw materials[12] and related technical knowledge are very important for their investments in the five CEE countries, as investment in oil, gas and metals are predominant. Another industry performing similarly is nuclear energy production. The asset-based advantages of Russian firms in the five CEE countries are closely related to their transaction-based advantages. The most evident case is that of the financial services sector. Both the asset and transactional ownership advantages of Russian firms are reinforced by the location advantages of the five CEE countries as these countries heavily rely on certain Russian natural resources, though to different extents. Similarly to hydrocarbons, iron and steel, as well as nuclear energy industries, the machinery industry also shows an interconnection of ownership and location advantages. For technology-based companies, the location advantages are not specific to the five CEE countries in the case of market-seeking motivations; but such factors are involved when

[12] The ownership advantages of Russian companies come from the control of raw materials rather than the desire to obtain raw materials in the five CEE countries.

it comes to efficiency-seeking motivations. Investigating the motives for and patterns of Russian investment in the five CEE countries, we can state that the technology-based firms show characteristics similar to developed-country multinationals. Other large state-owned and natural-resource-based firms are not similar to traditional multinationals. Yet others, for example real-estate investors, fall under no straightforward categorization. A location disadvantage is also at play. Several examples of negative approaches towards Russian capital in the five CEE countries could be found, though the reactions of the host governments to Russian multinationals have been mixed (see *Kalotay et al.*, 2014, 2016).

The expansion of Russian multinationals in the five CEE countries is similar to other emerging-country multinationals in the form of relatively high state involvement, either transparently or indirectly. Here, we repeat the findings from our previous paper, which posed the question whether this factor can be assimilated under transaction-based advantages, or a home-country factor has to be added to the OLI legs. We suggested that the main elements of the OLI paradigm could be applied when explaining Russian FDI in these countries, but its extension with home-country factors seemed to be necessary. This refers first of all to natural-resource-based multinationals, mainly oil, gas and steel, but home-country interest is also prevalent in other industries. In the case of Russian multinationals active in innovative industries, home-country factors play a minor role (see *Kalotay et al.*, 2014, 2016).

As noted, this research continues to be expanded. The next period, i.e., the third year, will attempt to establish the main concerns, challenges and negative impacts of Russian multinationals on the five CEE markets, whilst the fourth (final) year will explore the opportunities and positive impacts Russian multinationals can provide for this region.

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