

Trends in International Business

Royal-Dutch Shell in Russia and Western Sanctions

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This article reports on research based on three crucial aspects of the current global economic situation. First is the role of transnational corporations (TNCs) in establishing and constructing international cooperation at the supranational level. Second is the policy of sanctions against Russia in connection with the situation in Ukraine. And third is the cooperation of Royal Dutch Shell with Russia's Gazprom despite the political, economic and technological sanctions imposed on Russian companies and economic sectors.

Analyzing Shell's policy on the Russian energy market should reveal some kind of the managing principle that not only Shell but most TNCs follow in taking the political atmosphere into consideration, while striving to avoid any related restrictions.

The research methodology uses analytical, ultimate analysis and functional methods. The analytical method helped to lay the theoretical foundation of the research. Modern TNCs are deeply engaged in the process of economic globalization. To expand their influence, such companies create economic conditions for organizing international production with local markets and for international markets for capital, labour, and scientific and consulting services. The ultimate analysis method revealed the following pattern: in struggling for the global market, TNCs raise the level of competition, which creates a permanent need for technical innovations and scientific progress. The functional analysis method demonstrated a casual relationship in modern economic development: by assisting capital turnover and labour and transport mobility, TNCs contribute significantly to economic growth and development.

The first part of the article focuses on the history and methodology of the genesis and development of TNCs as actors in global economic relations. It also reviews the current role of TNCs in the global economy. The second part of the article examines the cooperation between Shell and Gazprom embodied in their joint realization of the Sakhalin-2 project and the prospects for the Sakhalin-3 project.

The final section of the article contains analytical conclusions and theoretical recommendations.

¹ The editorial board received the article in May 2016.

The authors came to two main conclusions. First, only transparent cooperation based on fair principles can guarantee stable economic ties between countries or any kind of global companies. Second, the accumulated experience in any field of cooperation provides quick and efficient payback of even the largest project. And even if the restrictions may correct (or try to correct) only in the short term but lay a foundation for long-term regress in relations, even one successful project, based on mutual trust and respect, can lead to a breakthrough in both economic and political relations between the countries.

Key words: transnational corporations; sanctions; Royal Dutch Shell; Gazprom; international cooperation; energy

For citation: Kurilev K., Martynenko E., Parkhitko N., Stanis D. (2017) Royal-Dutch Shell in Russia and Western Sanctions. *International Organisations Research Journal*, vol. 12, no 1, pp. 189–208 (in Russian and English). DOI:10.17323/1996-7845-2017-01-189.

Introduction

As a typical multinational corporation, Shell Oil & Gas Company is fully integrated into global economic processes. At the same time, international economic relations involve certain rules of the game, to be followed regardless of the scale of a multinational corporation. When considering the economic processes typical of 21st century globalization, one needs to allow for the political situation as well. This article analyzes the policy of sanctions imposed against Russia by most Western countries. The analysis has uncovered several companies that left the Russian market or significantly reduced their presence in response to the sanctions. Shell's policy has become the focus of our research since the company stands out from the common political vector through a number of strategic decisions.

The role of multinational corporations in the world economy: methodology and statistics

Globalization is the leading trend in the current development stage of human civilization, and has now grown to dominate global political development, extending far beyond the economy. Due to this phenomenon, new players have stepped into the international arena, and one of the most prominent roles belongs to multinational corporations (MNCs). As stand-alone international actors, MNCs play an active part in all global processes. The process of globalization evolves under the direct control of a limited number of super-corporations whose headquarters are located in the United States, the leading countries of the European Union, Japan, and more recently, China.

In 1970, as many as 7,300 MNCs were registered worldwide, with total turnover of approximately 626 billion dollars. In the early 1990s, there were already 37,000 MNCs, with turnover of 7 trillion dollars. There are currently more than 82,000 MNCs with total turnover exceeding 30 trillion dollars, and they have about 810,000 branch offices worldwide.

According to the World Investment Report by the United Nations Conference on Trade and Development (UNCTAD) published on 26 June 2013, in 2012 sales of foreign branch offices of MNCs increased by 7.4%, up to 26 trln dollars, and total assets increased up to 87 trln dollars (which is 15 trln more than the world's GDP), while employment was only at 72 million people, which just 2.2% of the global workforce. MNCs earn so much that by the end of 2012, among the 100 largest economic entities in the world, only 60 were sovereign states, while the remaining 40 were private MNCs [Stanis, Kurylev, 2015].

Despite the active development of European, Japanese and other MNCs between 1980 and 2000, it is the US MNCs that are leaders in many areas of the world economy (especially in the high-tech and strategic areas). Of the 500 largest MNCs in the world, 162 are American [Stupyan, 2005].

In 2011, scientists at the Swiss Federal Institute of Technology in Zurich revealed the existence of a dense "super group" consisting of 147 companies. All their property belongs

to other members of the “super group” that control 40% of all global capital.² This means that less than 1% of companies control 40% of the entire network.

Along with the dominant countries of the world, MNCs are active in the political, financial, economic, military, informational, scientific, educational, technological, and environmental spheres, among others. As non-public companies, they have a growing impact on international relations and decision-making processes in a number of countries. The events taking place in the world bring to mind Lenin’s well-known statement that “politics is the most concentrated expression of economics” [Lenin, 1967]. The key areas of MNCs’ political activities include interacting with the central and regional bodies of state authorities, as well as political parties and the media. Among the mechanisms of building such relationships are personnel rotation between MNCs and the state authorities in a certain country; corporations’ representatives joining national associations of industrialists and businessmen; participating in the election process; and financing various foundations and research and development companies. The international nature of MNCs’ activities determines their constant attention to foreign policy issues. Often, heads of MNCs contact heads of state directly, moving beyond foreign services, and hold meetings and negotiations with them with a view to solving issues of their corporate activities in host countries. Thereby, in attempting to acquire commercial profit, MNCs also have an impact on the political process of the host country, and if the country is a regional power, the impact is on a regional scale. Therefore, the economization of world politics is becoming one of the most important factors in forming the world order.

According to S.A. Afontsev, “for some people, MNCs act as major global drivers of economic and, potentially, social development, who are interested in the progressive income growth of citizens, creating demand for their products, and in the political stability necessary for long-term investment projects. For others, MNCs are exploiters of natural and human resources in developing countries, ready to forsake humanitarian and environmental values for the sake of profit. These aspects are considered when evaluating the activities of MNCs in developing rules to regulate global economic processes. The most actively discussed issue is whether it is “legitimate” to transform MNCs into entities of global economic regulation, and what will be (and are) the consequences for the interests of superindividual players interacting in the political world (national states, international governmental and non-governmental organizations), as well as ordinary citizens” [Afontsev, 2005].

MNCs’ growing influence on processes in the modern world may result in the formation of new global governance structures in both the world economy and politics. The growing influence of MNCs is evidenced by the establishment of the UN Commission on MNCs and its supporting institution – the UN Centre on MNCs, back in 1974. This was done based on the Resolution of the 57th session of the UN Economic and Social Council (EKOSOR) at the initiative of developing countries.

² Revealed – the capitalist network that runs the world. *New Scientist*, USA, 24 October 2011.

According to M. Lebedeva, the first official evidence of the role of MNCs as world political players was the UN Global Compact launched by UN Secretary General Kofi Annan in 2000. The document called on MNCs to comply with certain rules in the international arena (a sort of UN charter for corporations). “Although it is very difficult to measure the impact of companies in numbers, some examples are difficult to argue with. For example, BRICS is an organization that was created by states based on an idea from Goldman Sachs,” said M. Lebedeva³. Indeed, back in 2001, J. O’Neill, an economist at Goldman Sachs bank, wrote an analytical report on the four emerging economies (Brazil, Russia, India, and China), whose combined GDP may surpass the US, EU, and Japan by 2050.⁴

Foreign MNCs have regard for post-Soviet countries, but primarily Russia. Their interest in our country is mostly driven by geo-economic (resource) factors, which does not contradict the process of Russia’s inclusion in the global economy. But beside the apparent upsides of such an inclusion, it also leaves Russia vulnerable to certain risks due to the openness of the economy. There are also political costs.

Crisis in Ukraine and the sanctions policy of the West towards Russia

The events of 2014–2016 were illustrative in this respect. They were associated with the collective implementation of sanctions by the West against our country during the development of the Ukrainian crisis. The sanctions regime was due to both political and economic factors.

The political situation is that after the so-called “revolution of dignity” that resulted in a coup in Ukraine in February 2014, power in the country was taken over by radical nationalists whose statements and activities provoked a sharp increase in separatist sentiment in the country. On 16 March 2014, the Autonomous Republic of Crimea held a referendum on forming the Republic of Crimea with a subsequent accession to Russia. Moscow supported such a decision politically, and provided security for the local Russian population by reinforcing its military presence on the peninsula. According to the results of the referendum, 96.77% out of the 82.71% voters were in favor of joining Russia. On 17 March, the leaders of the Republic of Crimea appealed to the Russian authorities with a request for accession to Russia. As a result, a reunion of the Crimea and Sevastopol with the Russian Federation took place.

Western states led by the United States ignored the will of the Crimea population, did not accept the Crimean referendum, and regarded the accession of the peninsula to Russia as an act of military aggression and a violation of the territorial integrity of Ukraine.

³ Quote of A. Dolinsky, A. Gabuev Corporate Warriors. *Kommersant*, 13 May 2013. Available at: <http://kommersant.ru/doc/2184633> (accessed 13 April 2016) (in Russian).

⁴ V. Gabuev The Stumbling Fund *Kommersant*, 3 April 2013. Available at: <http://www.kommersant.ru/Doc/2155186> (accessed 1 April 2016) (in Russian).

At the same time, due to concerns over the policies of the new Ukrainian authorities, in a referendum on 11 May 2014 the population of the Donetsk and Lugansk regions of Ukraine voted in favor of forming the Donetsk People's Republic (DNR) and Lugansk People's Republic (LNR). In response, Kiev took punitive action against Donbass civilians. A civil war broke out in the country.

Even though Russia has not officially recognized the DNR and LNR, Western countries put the blame for the conflict in Ukraine in general, and the escalation of violence in the south-east, exclusively on our country. However, these were the representatives from the US and the EU who had largely contributed organizing the coup that gave power in the country to politicians loyal to them.

If one looks to economic reasons for the implementation of Western sanctions against Russia, as noted in the analytical report of the Information Center of the World Economy, "The Ukrainian conflict is a convenient formal cause for constraining [eliminating] Russian companies as competitors in the world and mainly on the European market. The MNCs of developed economies are not interested in the [prospective] reduction of their share and the growth of competition on the world market. They have chosen political mechanisms over market ones to eliminate Russian competition – through information and political lobbying."⁵

Table 1: Foreign companies that have officially recognized and/or supported sanctions against Russia⁶

Airbus Group	Microsoft
Boeing	Morgan Stanley
Citigroup	MSC Cruises
ConocoPhillips	Oracle
Deutsche Bank	Pepsi
E.ON	Renault Trucks Defense
Eni	Rheinmetall
Goldman Sachs	Siemens
Hewlett-Packard	Symantec
JPMorgan Chase	Visa inc.
MasterCard	Volvo
McDonald's	Windstar Cruises
Metro AG	

Source: compiled by the authors.

⁵ Economic sanctions against Russia: causes, analysis, lists, consequences. *Weic.info*. Available at: http://www.weic.info/ekonomicheskije_statije/ekonomicheskije_sankcii_protiv_rossii_rf_prichiny_analiz_spiski_posledstviia (accessed 2 April 2016) (in Russian).

⁶ *Ibid.*

An analysis of the sectoral structure of Western sanctions demonstrates the validity of such a conclusion, since the sanctions are directed exclusively against the most competitive strategic sectors of the Russian economy, such as oil and gas, the nuclear industry, the military industrial complex, and the banking system. And as Russian exports are mostly focused on the European Union market, the sanctions policy is aimed at forcing Russian companies out of the European market.

The table 1 below is a list of 25 MNCs from developed countries that joined the Western sanctions regime against Russia. The list can be expanded. We have only mentioned the largest companies.

In this context, the activities of a major and influential MNC such as Royal Dutch Shell in Russia stand out.

Royal Dutch Shell and the sanctions policy of the West against Russia

Let us consider the policy of the British-Dutch oil company Shell on the Russian market in the context of international sanctions imposed on Russia in March 2014. From the economic point of view, the sanctions policy causes damage to all parties to the economic conflict, and is not limited to the economic slowdown of the object of the sanctions policy. From a political point of view, the imposition of sanctions against Russia was initiated by the United States and the EU in response to Russia's actions during the Ukrainian crisis, which is developing and deepening even today. From a methodological point of view, the sanctions policy of the West towards Russia pursues the same economic and partially political goals that would be challenging to achieve through traditional methods and fair competition.

The urgency of the problem is determined by the economic and political agenda, where the issue of maintaining the sanctions against Russia not only remains, but occasionally even gets new momentum. At things stand, the EU sanctions have been extended until March 2017. As for the United States, the chance of a further extension after the victory of the Republican Party candidate Donald Trump is less certain.

Shell has been engaged in the exploration and production of oil and gas for more than a hundred years. The company was founded in 1907 by the merger of the Shell Transport and Trading Company Ltd. and the Royal Dutch Petroleum Company as an alternative to John Rockefeller's Standard Oil. To date, Shell is the world's largest oil and gas company, and is headquartered in The Hague (Netherlands). It employs 94,000 people in more than 70 countries. It owns more than 50 petrochemical plants worldwide. The total number of Shell gas stations is 55,000. In total, Shell is engaged in oil and gas development in 40 countries. The company carries out scientific and technological cooperation with almost all European countries [Davider et al., 2012]. Its daily production amounts to 3.1 million barrels (more than 400,000 tons) of oil equivalent. Shell's reserves as of 2009 amounted to

5.69 billion barrels (770 million tons) of oil, and 1.38 trillion m³ of gas.⁷ According to the Financial Times Global 500 Rating 2015, Shell took fourth place among the world's largest oil and gas MNCs, and 26th place among the top 500 MNCs. Its market value amounted to 192.1349 billion dollars.⁸ Shell's success is largely due to flexible asset management and timely restructuring of cash.

For over one hundred years, the activity of the Shell Corporation has been tightly connected to Russia. Today, Shell is one of the largest direct foreign investors in the Russian economy. In Russia, the companies and joint ventures of the corporation are working in various fields of business. The Shell corporation's projects in Russia include the following: 1) development of fields on the Sakhalin shelf as part of the Sakhalin-2 project. It is the world's largest integrated oil and gas development project, and with regard to engineering, it is one of the most complex projects ever undertaken. The shareholders of the project are Gazprom (50% plus 1 share), Shell (27.5% minus 1 share), Mitsui (12.5%), and Mitsubishi (10%); 2) the development of the Salym group of oil fields in the Khanty-Mansiysk Autonomous District in Western Siberia. It is Russia's largest investment project involving a foreign company to develop oil fields on land; 3) Shell participates in the Caspian Pipeline Consortium (CPC) for the construction and operation of a 1510 km export pipeline system, which has connected the Tengiz field in Kazakhstan to Novorossiysk. The total share of Shell in the CPC is 5.5% (3.75% within a joint venture with Rosneft Oil & Gas Company and 1.75% as direct participation). In addition, Shell is engaged in the sale of lubricants for the industry and for commercial vehicles; the group covers more than 20% of Russia's imports of motor oils, sold through an extensive distribution network from Kaliningrad to Vladivostok; the corporation is building a complex for the production of Shell lubricants in Torzhok in the Tver region; Shell is one of the largest Russian oil buyers; a network of Shell gas stations operates in the Central and North-West districts of Russia⁹.

Russian projects occupy a large part of the portfolio of Shell assets related to oil production and development of deposits. In total, the corporation produces more than 13 mln tons of oil and 9 billion m³ of gas in our country. In terms of financial assets, it is one of the largest investors with a developing close partnership. Shell is therefore a strategic partner in oil and gas production in Russia.

In this context, it is relevant that the company has not supported the sanctions policy against Russia. According to the President of The Concern Shell in the Russian Federation, Olivier Lazare, "Anti-Russian sanctions of Western countries in the energy sector

⁷ Royal Dutch Shell. Company profile and the impact on the Russian fuel and energy complex. *Pronedra.ru*, 30 August 2011. Available at: <http://pronedra.ru/oil/2011/08/30/obzor-kompanii-shell/> (accessed 2 April 2016) (in Russian).

⁸ Financial Times Global 500 Rating-2015. Available at: <http://im.ft-static.com/content/images/b38c350e-169d-11e5-b07f-00144feabdc0.xls> (accessed 2 April 2016).

⁹ Shell projects in Russia. Available at: <http://www.shell.com.ru/aboutshell/shell-businesses/shell-businesses-russia.html> (accessed 2 April 2016) (in Russian).

imposed in connection with the events in Ukraine had no significant effect.” O. Lazare stressed that, despite the sanctions, the company continues to develop its projects in Russia. “We do not impose any sanctions on ourselves in the areas where we can develop.”¹⁰ He said that the Nord Stream-2 project would be implemented, despite the political debate. “We are aware that the project is associated with a number of political issues. We do not carry out any political projects, only economic ones. We believe that Europe needs gas, and believe in competition. That is why we are implementing this project,” he said. O. Lazare also said that the project fits into European fundamental concepts, and stressed that Russia is a reliable supplier of gas – that in 48 years, the supply has been interrupted only for 14 days.¹¹

The agreements signed in June 2015 during the St. Petersburg International Economic Forum (SPIEF) clearly indicate that major European energy companies, such as Shell, intend to continue cooperation with Russia in spite of the sanctions imposed against the country. As opposed to major US companies, European energy giants are acting as though anti-Russian sanctions do not exist. They simply do not pay any attention to them. In particular, during SPIEF, a memorandum of understanding was signed between Gazprom, Germany’s E.ON, the British-Dutch corporation Shell, and Austria’s OMV. It is expected that a joint venture will be created for the construction of a new gas pipeline from Russia to Germany. It will direct 55 billion cubic meters of Russian gas to the EU – more than the Nord Stream pipeline. In addition, Shell signed a strategic partnership agreement with Gazprom, which provides for the development of strategic cooperation in all segments of the gas industry, including the possibility of an exchange of assets. The CEO of Shell, Ben van Beurden, has said that for the foreseeable future Gazprom will remain an important part of Europe’s energy sector. “New projects are very important to meet the demand for energy, especially in view of the reducing volume of gas production in Europe.”¹²

According to the former CEO of Shell, Jeroen van der Veer, “the sanctions introduced by EU member states against Russia ‘doesn’t work’, therefore international policy issues, in particular the crisis in Ukraine need to be solved only through diplomacy. Reaching a peace agreement will not be easy, but Moscow and Kiev have to be willing to negotiate.” J. Van der Veer also stressed that, “in spite of the restrictive measures adopted by Europe, the popularity of Putin among the Russian population is not only steady, but even growing.”¹³

¹⁰ Shell: Anti-Russian sanctions in the energy sector had no significant effect. *TASS*, 13 April 2015. Available at: <http://tass.ru/ekonomika/1899186> (accessed 2 April 2016) (in Russian).

¹¹ Shell believes in the project Nord Stream-2, in spite of the political debate. *TASS*, 11 February 2016. Available at: <http://tass.ru/ekonomika/2658939> (accessed 2 April 2016) (in Russian).

¹² K. Rapoza Are European Companies Ignoring E.U. Sanctions On Russia? *Forbes*, 21 June 2015. <http://www.forbes.com/sites/kenrapoza/2015/06/21/are-european-companies-ignoring-e-u-sanctions-on-russia/#7f4e3c5a421b> (accessed 2 April 2016).

¹³ Ex head of Shell: Sanctions against Russia are not working, and Vladimir Putin’s rating continues to grow. *RT*, 25 August 2014. Available at: <https://russian.rt.com/article/46906> (accessed 2 April 2016) (in Russian).

It should also be noted that in the autumn of 2015 it became known that the British-Dutch oil giant had finally had exited the project for the production of shale gas from the Yuzivska field in the Kharkov and Donetsk regions of Ukraine. Back in 2010, Ukraine issued a license for the exploration of shale gas to ExxonMobil and Royal Dutch Shell. In 2012, Ukraine held a tender for the conclusion of a Production Sharing Agreement (PSA) for the Scythian site of the Black Sea shelf. The winner was a consortium led by Exxon Mobil (with a 40% stake), Royal Dutch Shell (35%), Austria's OMV (15%) and NAK Nedra Ukrainy (10%). In May 2012, the winners of the tender for the development of the Yuzivska (Donetsk region) and Olesskaya (Lviv region) gas sites were declared. They were Royal Dutch Shell and Chevron. On 24 January 2013, Ukraine and Royal Dutch Shell signed a Production Sharing Agreement for shale gas at the Yuzivska field in the Kharkiv and Donetsk regions. The event took place in Davos in the presence of the President of Ukraine, Viktor Yanukovich, and the Prime Minister of the Netherlands, Mark Rutte [Stanis, Kurylev, 2015].

We should note that Shell's decision to cancel the plans followed in the fall of 2015, when the Minsk agreements were already in force (Minsk-2) and the active hostilities in the south-east of Ukraine were halted. And this is despite the fact that at the Scythian site of the shelf, the commodities should have been distributed as follows: 70% to the foreign investor, 20% to the state, and 10% to intermediaries. According to the agreement with Shell, the text of which was leaked to the media shortly after the signing, the share of the corporation's products had to be between 31% and 69%, depending on a number of factors. Meanwhile, the Ukrainian law "On Production Sharing Agreements" stipulates that the extracted commodities are to be divided between the state and the investor in a ratio of 70:30. Thus, the state's share in the produced hydrocarbons was in direct proportion to the level of Shell's costs and production volumes. The corporation could have constantly increased the level of costs without great difficulty, which would provide it with the potential to postpone as far as possible the moment when Ukraine was due its 60% share of the gas. The text of the agreement also provided for Shell to export the produced hydrocarbons in unlimited amounts, and to freely dispose of the resulting profits, including moving them out of Ukraine without any restrictions or controls by the state. Corporate tax exemption was an important factor contributing to attracting MNCs to Ukraine [Stanis, Kurylev, 2015].

In the autumn of 2015, it also became known that Russia's Gazprom would continue to develop the Sakhalin shelf together with Shell. The two corporate giants came to an agreement that they would not stop the operations at the South Kirensk field, which in August fell under US sanctions banning the supply of equipment for subsea production. As M. Mitchenkov notes, Shell's position is "looking for any loopholes under any circumstances. All the more so as these new projects are in fact carried out within agreements signed long ago, so technically there is no violation of the original restrictions which relate to any new interaction between foreign companies and Russian companies on the sanc-

tions list. Therefore, Shell will remain within joint projects with Gazprom for as long as possible.”¹⁴

What are the reasons for this behavior of a major oil and gas corporation? Clearly, the company prefers to work in a country which is under sanctions, but has a stable political regime and guarantees on business conduct, rather than to work in a country that has experienced two color revolutions and is on the brink of default. The chief editor of the “Russia in Global Affairs” journal, F. Lukyanov, believes that “the basis for close cooperation between Moscow and Western energy MNCs lies in the concept of joint re-industrialization”. At its core is a “scheme to which the Russian leader, Vladimir Putin, has returned repeatedly – the exchange of assets. It implies exchanging Russian raw materials for European technology, but not at the level of a primitive barter, rather as a systemic merge of branches”. According to Lukyanov, such a system was proposed by the Russian government and accepted by its Western partners in the mid-2000s [Lukyanov, 2014]. It appears the company did not choose to exchange the Russian assets in favor of the Ukrainian ones.

After studying a map of Shell’s facilities and carrying out an analysis of its asset structure, it becomes clear that the strategic goal of the corporation is to ensure an equal position in both the main and related industries of the fuel and energy industry of the countries. All of Shell’s investment decisions are characterized by economic feasibility and careful risk analysis of each project, looking at the long term. The success of the company is largely due to its strategic management. Throughout its existence, Shell has never been involved in any political scandal.

Despite its enormous influence on international energy relations, Shell is not positioning itself as a major player in world politics. This corporate strategy has been implemented throughout the entire lifetime of the company. This apolitical philosophy of the corporation enables it to build relationships with the governments of the states in which it is interested.

The Western sanctions against Russia, initiated in March 2014 and developing today in one way or another, were directed against both entities and sectors of the Russian economy. Above all, they deal with the banking sector and have limited the international exchange and trade of technology with our country. Primarily, such restrictions affect so-called dual-use technologies, which can be used both in the military and civilian sectors.

Taking into account the sanctions policy, a number of companies decided to reduce their presence in Russia, or even to withdraw their business from the country. As an example, not only can we name some of these companies (see the above table), but we can also structure them by economic sectors for convenience.

¹⁴ Shell will remain within joint projects with Gazprom for as long as possible. *NANGS*, 30 September 2015. Available at: <http://nangs.org/news/industry/shell-budet-ostavatsya-v-sovmestnykh-proektakh-s-gazpromom-maksimalno-dolgo-intervyu-2492> (accessed 2 April 2016) (in Russian).

Industry:

German corporation Rheinmetall has halted the supply of equipment to Russia.¹⁵

German transnational corporation Siemens has announced that it will strictly adhere to all of the sanctions imposed against Russia.¹⁶

French company Renault Trucks Defense, owned by Swedish corporation Volvo, has suspended the development of a joint project with Russia for the development of the Atom infantry fighting vehicle.¹⁷ In addition, the delivery of some economy-class civilian car model lines to Russia has been suspended.

Italian company Fincantieri has suspended a joint project with CDB ME Rubin to develop the S-1000 small non-nuclear submarine.¹⁸

The French company EDF Trading has refused to buy Russian thermal coal provided by Zarechnaya company.¹⁹

Italian oil refining company Saras has postponed plans to establish a joint venture with Rosneft to sell oil and petrochemicals.²⁰

American corporation Applied Materials has refused to supply equipment for a plant to produce MRAM memory chips in Moscow.²¹

By September 2014, US oil company ExxonMobil, which is the largest private oil company in the world, had stopped the work on nine out of ten projects in Russia.²²

¹⁵ Germany has suspended the export of defense equipment to Russia. *Newsru*, 21 March 2014. Available at: <http://newsru.co.il/world/21mar2014/germany8010.html> (accessed 2 April 2016) (in Russian).

¹⁶ Siemens has promised to comply with the sanctions regime against Russia. *Forbes*, 27 April 2014. Available at: <http://www.forbes.ru/news/255949-glava-siemens-pobeshchal-soblyudat-sanktsionnyi-rezhim-protiv-rossii> (accessed 2 April 2016) (in Russian).

¹⁷ Renault Trucks Defense has suspended the development of a joint project with Russia for the development of an infantry fighting vehicle. *TASS*, 8 April 2014. Available at: <http://tass.ru/mezhdunarodnaya-panorama/1104931> (accessed 2 April 2016) (in Russian).

¹⁸ CDB ME Rubin: the Russian-Italian project for the development of small non-nuclear submarine S-1000. *TASS*, 25 July 2014. Available at: <http://tass.ru/politika/1340809> (accessed 2 April 2016) (in Russian).

¹⁹ French company EDF Trading has refused to buy Russian coal. *Rosbalt*, 31 July 2014. Available at: <http://www.rosbalt.ru/business/2014/07/31/1298519.html> (accessed 2 April 2016) (in Russian).

²⁰ Saras has suspended negotiations with Rosneft because of the situation in Ukraine. *RiaNovosti*, 11 August 2014. Available at: <http://ria.ru/economy/20140811/1019541591.html> (accessed 2 April 2016) (in Russian).

²¹ Applied Materials has refused to supply to Russia equipment to produce MRAM memory chips. *TASS*, 19 August 2014. Available at: <http://tass.ru/ekonomika/1387361> (accessed 2 April 2016) (in Russian).

²² ExxonMobil has stopped work on nine out of ten projects in Russia. *InterNovosti*, 30 September 2014. Available at: <http://www.internovosti.ru/text/?id=90513> (accessed 2 April 2016) (in Russian).

IT business:

On April 30, US IT companies, including Microsoft, Oracle, Symantec and Hewlett-Packard, ceased cooperation with Russian banks and companies, against which the sanctions were imposed by the US government.²³

Finance and economy:

On 21 March 2014, international payment systems Visa and MasterCard stopped servicing cards issued by Russian banks affiliated with entities on the US sanctions list. The first ones to be affected were clients of the following banks: Russia, Sobinbank, InvestCapitalBank, SMP Bank, Finservice, and others (a total of seven Russian banks).²⁴

On 16 April, the Bank of Cyprus stopped the operation of all its branches in the Crimea, “in connection with the latest events on the Crimean peninsula.”²⁵

The heads of more than 30 companies refused to participate in the St. Petersburg International Economic Forum on 22-24 May 2014, including the CEOs of Goldman Sachs, Morgan Stanley,²⁶ ConocoPhillips, Airbus Group, Visa Inc., Alcoa, Siemens, Citigroup, International Paper Company, Pepsi, Eni, Bain & Company, Enel, E.ON, Boeing, and Deutsche Bank.

On 26 December 2014, payment systems Visa and MasterCard stopped servicing their cards in the Crimea.²⁷

On 13 July 2015, the British bank Barclay’s closed the accounts of the representative office Rossiya Segodnya (Russia Today, RT) news agency.²⁸

²³ Microsoft, Oracle, Symantec and HP have supported US sanctions against Russian companies. *Rosinform*, 30 April 2014. Available at: <http://www.rosinform.ru/feed/836269-microsoft-oracle-symantec-i-hp-prisoedinyayutsya-k-sanktsiyam-ssha-protiv-rossiyskikh-kompaniy/> (accessed 2 April 2016) (in Russian).

²⁴ Russians started to notice the first results of the US sanctions. *Newsru*, 21 March 2014. Available at: http://newsru.com/russia/21mar2014/sankcii_banks.html (accessed 2 April 2016) (in Russian).

²⁵ The Bank of Cyprus terminates its work in Russia. Available at: <http://finance.obozrevatel.com/business-and-finance/70568-bank-kipra-prekraschaet-rabotu-v-kryimu.htm> (accessed 2 April 2016) (in Russian).

²⁶ Heads of two more companies refused to participate in the SPIEF-2014. *Rosbalt*, 16 May 2014. Available at: <http://www.rosbalt.ru/piter/2014/05/16/1269327.html> (accessed 2 April 2016) (in Russian).

²⁷ UPDATE 2-Visa, MasterCard stop supporting bank cards in Crimea. *Reuters*, 26 December 2014. Available at: <http://www.reuters.com/article/russia-crisis-visa-crimea-idUSL6N0UA0XJ20141226> (accessed 2 April 2016).

²⁸ The accounts of the Rossiya Segodnya news agency office were closed due to the sanctions. *Rbc*, 13 July 2015. Available at: <http://www.rbc.ru/rbcfreenews/55a37ac69a7947050b5a9594> (accessed 2 April 2016) (in Russian).

Tourism:

Cruise companies have canceled the calls of their liners to Crimean ports. In particular, such a decision was officially announced by Costa Crociere, Azamara, Oceania Cruises, Regent Seven Seas Cruises, Windstar Cruises, MSC Cruises, and Ruta.²⁹

The position of the management of Royal Dutch Shell, considered in our study, was in general consistent with the general direction of the sanctions policy against Russia. In particular, on 3 October 2014, it halted cooperation with Russian oil company Gazprom Neft within the joint venture Khanty-Mansiysk Oil Union.

Nevertheless, it can be assumed that the company puts strategic partnership principles above the political situation. To illustrate this, we will introduce some statistics through the example of just one major infrastructure project. Shell continues to cooperate within this project, despite the objective and subjective economic difficulties.

We will talk about the project Sakhalin-2, the first phase of which started back in 1994. The reserves of oil and gas fields developed within the project Sakhalin-2 are estimated at 17.3 trillion cubic feet of natural gas and 1 billion barrels of liquid hydrocarbons (oil and gas condensate).³⁰ The project allowed a 5% increase in global capacity for LNG production. As part of the project, the following two offshore fields are under development: Piltun-Astokhskiye, which carries mostly oil with some natural gas reserves, and the Lunskoye gas field with some gas condensate reserves, which is one of the largest in the world. Both deposits are located approximately 15 kilometers off the northeast coast of Sakhalin Island.

The start of drilling and production at the Lunskaya-A platform in 2007 is one of the major industrial developments in the second phase of the Sakhalin-2 project. This is the first offshore gas production platform in Russia. In creating the Lunskaya-A platform, which is designed for year-round reliable operation in the harshest conditions of an earthquake-prone region, many innovative design solutions and technologies were used. The second platform – Piltun-Astokhskiye-B, created after four years of hard work by designers and builders, is located 12 kilometers from the coast of Sakhalin Island in the open sea at a depth of 32 m. This integrated oil and gas platform was put into operation in 2007.

The central part of the project is Russia's first liquefied natural gas (LNG) plant with a terminal for the shipment of oil and LNG in the south of the island, near the village of Prigorodnoye on Aniva Bay. Natural gas is processed at two identical process lines, or threads, to produce 9.6 mln tons of LNG per year.³¹ The production complex also includes storage tanks for crude oil and LNG, a power plant with capacity of 480 MW, an undersea pipeline to the mooring, and a seaport. Three specialized transport ships were built to deliver LNG to buyers: Grand Aniva, Grand Elena and Grand Mereya. The carrying capacity of each is

²⁹ See the information about cruise liners cancelling their calls into the Crimean ports here: <http://7seasocean.com/ru/news/kruiznye-laynery-otmenili-zahody-v-porty-kryma> (accessed 2 April 2016) (in Russian).

³⁰ Shell Bulletin. Sakhalin-2 – reaching new energy heights! Available at: <http://s05.static-shell.com/content/dam/shell/static/rus/downloads/business/sakhalin-rus2009.pdf> (accessed 2 April 2016) (in Russian).

³¹ Sakhalin Energy. Available at: http://www.sakhalinenergy.ru/ru/company/company_assets/industrial_complex_prigorodnoe.wbp (accessed 2 April 2016) (in Russian).

147,000 cubic meters of LNG. The ships were built at Japanese shipyards and their owners and operators are two Russian-Japanese consortiums. Since the transportation of LNG is a brand new segment of the Russian shipping market, the Russian ship-owners are gaining valuable experience necessary for future LNG projects in Russia.

It is worth noting that the entire volume of LNG produced by the plant has already been sold for 20 years or more ahead, under contracts concluded with 11 foreign partners. Two production lines of the LNG plant in Prigorodnoye can produce 9.6 mln tons of liquefied natural gas annually. The LNG from Sakhalin-2 has become a new source of energy to the Asia-Pacific markets: currently, the Russian supply meets almost 9% of Japan's and 4% of South Korea's gas needs.

What do these figures mean? First of all, they demonstrate the potential of cooperation, which in case of successful implementation enables us to rely on mutual success, which is not only of an economic nature. Oil was discovered by Russian researchers on Sakhalin in the middle of the 19th century. But the reserves were so difficult to reach that it hardly had any practical significance. Even in the 1980s, when geologists already had an idea of the scale of the offshore fields, it was unclear how these remote reserves of oil and gas could be put on the markets.

The solution to this problem was found thanks to the emergence of new technologies. Cooling natural gas to very low temperatures made it possible to transform it into easily transportable LNG. However, only a few companies had experience in the development of offshore fields, and even fewer had at their disposal the technology for LNG production or its delivery to markets.

As we have seen, the construction of two ultra-modern floating platforms made it possible not only to develop oil and gas infrastructure in the region, but also to master (in Russia) several types of new technology never previously applied in our country. This includes both technology for the construction of such strategic objects and technology for offshore oil and gas production.

In turn, Shell owns 27.5% of shares in Sakhalin Energy, the company directly involved in offshore extraction. Given the stability of Gazprom (which includes Sakhalin Energy), a substantial level of state support, and as a result, the low susceptibility of Gazprom to Western sanctions, cooperation between Shell and Gazprom has a high assurance against all sorts of contingencies and economic risks.

Thus, it can be summarized that the Sakhalin-2 project makes an important contribution to the socio-economic development of the island. Roads, schools and hospitals are being built. Workers are acquiring new skills, local industrial companies are increasing their productive capacity, and business activity is booming. The village of Prigorodnoye has turned into a specialized seaport, which can receive about 160 ships for LNG transportation and 100 Aframax oil tankers per year.³²

³² Bulletin. Sakhalin-2 – reaching new energy heights! Available at: <http://s05.static-shell.com/content/dam/shell/static/rus/downloads/business/sakhalin-rus2009.pdf> (accessed 2 April 2016) (in Russian).

The project has involved a large number of multiskilled professionals. At the peak of construction in 2006 and 2007, more than 25,000 people from 33 countries were involved. Such an amazing diversity of people of different nationalities can be compared only with the construction of the Tower of Babel, but in contrast to the Old Testament story, the workers of Sakhalin-2 managed to find a common language. The successful implementation of the project required the highest degree of coordination and coherence of action. Together, the workers built 700,000 tons of steel structures, assembled 500,000 tons of pipes, and implemented technical solutions that were not even considered possible before. Together they managed to realize one of the most daring projects that many did not believe was possible. That is why Sakhalin-2 is the pride of the energy sector – not only in Russia, but internationally as well.

The policy of cooperation and constructive interaction adopted by Shell's management as a benchmark is of paramount importance for Russia. For many years Russia, as the world's largest gas exporter, has supplied this type of fuel mostly to Europe. Today, with the development of the richest reserves of the Sakhalin shelf, the experience of the successful partnership can be applied in the Far East of the country as well. The Sakhalin project opens for Russia the new fast-growing Asian and US markets, which further strengthens its position as a global strategic supplier of energy.

The oil aspect of bilateral cooperation deserves particular attention. The benefits are quite clear. Vityaz crude oil produced in the Sakhalin-2 project is light oil with low sulfur content, and with a quality level close to Oman light oil. A record number of customers took part in the auction and trade negotiations for the purchase of this oil, which clearly indicates the growing interest of the Asia-Pacific markets for this high-quality product.

Speaking about cooperation between Shell and Gazprom, of particular note is the improvement in offshore production experience in the Arctic. In this context, the Sakhalin-2 project serves as a kind of laboratory, enabling Shell and its partners to gain extremely valuable experience, which is needed for new-generation technical development. This experience is especially valuable for the future development of the Russian North, which, according to various estimates, could account for up to 20% of domestic oil and gas production by 2030.

The two production lines of the LNG plant in Prigorodnoye can produce 9.6 million tons of liquefied natural gas annually. Approximately two thirds of this amount have already been reserved for eight buyers in Japan, which makes Russia a new strategic partner of this country in terms of natural gas supplies. The remaining volumes were contracted for delivery to South Korea and the West Coast of North America – the United States and Mexico.

The expansion of Russian facilities for the production and export of LNG is extremely important for the future. It is estimated that by 2030, 50% of the total natural gas sold worldwide will be LNG. The Sakhalin-2 project is the first step on the way to the Russian conquest of this dynamic export market.

Speaking about the next steps that Russia is planning to take in this direction, we should mention Sakhalin-3. The development of this project is possible in two directions: the expansion of the LNG plant (creation of new so-called technological stages) or the development of the major new Yuzhno-Kirinskoye field in the Sea of Okhotsk. In the analysis of this project, we have to remember the Western sanctions imposed on the Russian oil and gas sector. On 7 August 2015, the US government introduced restrictive measures against the Russian Yuzhno-Kirinskoye field. In particular, the US government decided that the export, re-export and distribution within the country of any equipment subject to export regulations for this field by any person, without prior approval of the Bureau of Industry and Security (DOC structure), entails the risk of violating sectoral sanctions against Russia.³³

The US sanctions currently also cover deposits where work is conducted at a depth of more than 500 feet (about 152 m). As previously mentioned, the Yuzhno-Kirinskoye field is a part of Gazprom's Sakhalin-3 project. This is one of the largest fields on the Russian shelf. The reserves are second only to Gazprom's Shtokman field in the Barents Sea. The reserves of the Yuzhno-Kirinskoye field are almost 640 billion cubic meters of gas and 97 million tons of condensate.³⁴ Gazprom was considering the development of the Yuzhno-Kirinskoye field through subsea production systems. But Gazprom has adopted an import substitution program, and such equipment is only produced by the American companies FMC Technologies, Cameron, GE Subsea, and the Norwegian company Aker, and domestic manufacturers are not yet able to provide a substitute. Thus, Gazprom cannot purchase the equipment to work on the shelf (its depth within the project ranges from 110 to 300 m), and its partners can only work with it on the existing projects (e.g. Sakhalin-2).

Analyzing the strategy of Gazprom under these circumstances, it is highly probable that an administrative decision will be made, according to which Sakhalin-3 may become a part of PSA Sakhalin-2. This would enable Gazprom to attract foreign investment in the expansion of the plant, and avoid the sanctions that restrict the provision of technology from foreign partners.

It appears that Shell has also made a decision to follow this path. On 18 June 2015, Gazprom and Shell signed a memorandum of expansion for at least another stage of the Sakhalin-2 LNG plant, which will increase its annual production capacity from 10 to 15 million tons. The investment decision on the construction of the third line is expected to be made in the second half of 2017, and the line itself may be put into operation as early as in 2021. It is assumed that Sakhalin-3 will become a resource base for the project. The capacity of the third stage of the plant, whose cost is estimated at 7.4 billion dollars, is easily calculated at about 5 million tons per year, and should increase the production volume

³³ The US imposed sanctions against Gazprom's largest field on the shelf. *Vedomosti*, 7 August 2015. Available at: <http://www.vedomosti.ru/business/articles/2015/08/07/604010-ssha-vveli-sanktsii-protiv-krupneishogo-gazproma> (accessed 2 April 2016) (in Russian).

³⁴ Yuzhno-Kirinskoye field. Available at: <http://www.gazprom.ru/about/production/projects/deposits/sakhalin3/yuzhno-kirinskoye/> (accessed 2 April 2016) (in Russian).

of Sakhalin-2 by one and a half times. The memorandum for its construction was signed by Gazprom and Shell on 18 June 2015 during the St. Petersburg International Economic Forum (SPIEF).³⁵ Talking about other joint projects, it is worth mentioning that Gazprom and Shell, in cooperation with E.ON, OMV and Wintershall, are going to build two threads of the Nord Stream-2 gas pipeline across the Baltic Sea.

While a number of key positions in Nord Stream-2, designed to diversify energy supplies to Europe, are still at the approval stage and largely depend on the political climate in Europe, in the case of Sakhalin-3 the situation is driven by purely economic interests. Shell is also interested in this project because of the proximity to the Asian markets, and for Gazprom the involvement of such a reliable partner will provide access to additional financing, technology, and sales, and allow sharing of risks. In return, Gazprom is very likely to receive a share in one of Shell's LNG projects.

In assessing the practical results of cooperation between Shell and Gazprom, we should note not only that at the moment, Gazprom together with the partners of the Sakhalin-2 project (besides Shell, these are Japan's Mitsui and Mitsubishi, with stakes of 12.5% and 10% respectively) is planning to build a third stage of the LNG project, but also another important point. This is that the resource base for the project will be the deposits of the Sakhalin-3 project that were planned previously, in particular the four offshore blocks in the Sea of Okhotsk: Kirinskoye, Veninskoye, Ayashskoye and East Odoptu. The Yuzhno-Kirinskoye and Mynginskoe fields were opened at the Kirinskoye block, where two production wells are working as of today, and it is planned to drill five more in 2016. It is planned that by 2018 they will have produced about 5.5 billion cubic meters of gas. We again note that in 2015 the Yuzhno-Kirinskoye field was included in the list of US sectoral sanctions. Nevertheless, as the management of Gazprom believes, the construction is planned not only for the third stage of the Sakhalin-2 LNG plant, but there is also potential for the construction of a fourth line.³⁶

Conclusion

We have considered the main directions of cooperation between the Dutch-British company Shell and the Russian company Gazprom through the example of the Sakhalin-2 project and its further expansion and development into the Sakhalin-3 project. Our main conclusions can be summarized as follows:

Firstly, honest cooperation based on transparency and mutual trust brings mutual success not only in the narrow area of cooperation (in our case the energy sector of the economy), but also in a number of related areas. The transition of the Russian economy to the stage of in-

³⁵ Shell may join Gazprom's project Sakhalin-3. *Sakh-life*, 6 August 2015. Available at: <http://www.sakh-life.com/news/1878/> (accessed 2 April 2016) (in Russian).

³⁶ Gazprom: the US sanctions will not affect the expansion of Sakhalin-2. *RiaNovosti*, 12 April 2016. Available at: <http://ria.ru/economy/20160412/1409255558.html> (accessed 2 April 2016) (in Russian).

novation development requires more efficient use of all resources and the creation and effective management of industrial, scientific and technical potential. It also necessitates the innovative transformation of the Russian fuel and energy industry, with the active participation of small and medium-sized enterprises (SMEs) and their involvement in the process of the so-called innovation partnership. In this, the guiding role will be played by the state, mainly through developing policies and creating a favorable climate for innovation, while entrepreneurs will generate and implement innovative transformations [Gonenko, Vdovin, 2015]. Secondly, the accumulated experience of such cooperation, together with an increasing degree of trust between the partners, is able to recoup the material and political costs in a fairly short time. In the above example, a little more than 15 years passed from the beginning of our project until the first practical results in the form of finished products of the LNG plant and the energy produced. From the perspective of the global economy, this is a perfectly acceptable timeframe. Further development of the project will only accelerate the process of return on investment. From a political point of view, the formal participation of Shell in the context of the sanctions against Russia, given that in fact they are avoided, provide favorable grounds for further cooperation. When the sanctions against Russia have been lifted, Shell is very likely to enter into new profitable contracts and agreements in Russia, since it has managed to establish itself as a reliable and trusted partner. In this regard, it should once again be mentioned that the policy of cooperation and constructive development of relationships with any partners, regardless of the prevailing political situation, can bring more dividends than the course of confrontation and artificial destruction of clearly beneficial economic connections. In our opinion, the example of cooperation between Shell and Gazprom, even in such a difficult period in the development of international economic relations, confirms this thesis in the best possible way.

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