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Joint Ventures from the 1990s

Introduction

The history of foreign partnership in the Russian oil and gas industry during the post-Soviet era has been a chequered one, as discussed in Chapter 1. Some theoretical reasons for this outcome, including in particular the implicit bargaining between the local knowledge of domestic partners and the operational and management skills of foreigners, have been discussed in Chapter 2. However, it is now time to look at some practical examples of joint ventures in action, and to hear about the experiences of the key foreign actors who took part in them. This chapter includes three case studies of partnerships that were formed in the 1990s and operated largely in the Yeltsin era, although their activities did also spill over into the Putin era post-2000.

In a later chapter we will discuss in more detail the views of foreign players who have been active in Russia during the 2000s, but for now we plan to draw some conclusions from an era which, as argued in Chapter 2, provided a clear example of a weak state environment but also offered a business environment that is not so very different from that faced by foreigners in Russia today. All the case studies are presented on an anonymous basis for two reasons. Firstly, to protect the identity of participants and secondly because the intention is not to draw any pejorative conclusions about the Russian or international companies involved, but rather to draw relevant lessons from their respective actions and reactions during the life of the joint ventures being considered.

The first case concerns a joint venture between a small North American independent oil company and the subsidiary of a vertically integrated Russian oil company. After being formed as a 50:50 JV just after the end of the Soviet Union it operated in West Siberia, but initial operational success descended into legal dispute over non-payment of costs, legal disputes in regional courts, armed intimidation as the JVs offices were taken over by the domestic partner and finally legal proceedings in an international court. The final outcome was
that the foreign partner was forced to accept a much diluted stake in the joint entity, succumbing to the pressure exerted by his domestic partner’s weight of local knowledge and influence in a business environment without strict rules.

Case study two relates to a similar JV, again between a North American oil company and the subsidiary of a major Russian oil company. It was formed later in the 1990s and focused on the re-development of a mature field in West Siberia, and again was an operational success much lauded by the domestic partner as a model for field rehabilitation in Russia. However, a change in ownership at the Russian oil company left its foreign partner exposed, having previously relied entirely on its domestic partner for local knowledge and influence. When the new owners of the Russian oil company decided to use their local know-how to gain a better deal at the JV, the North American partner was faced with an unequal battle in the bankruptcy courts, and after numerous legal proceedings finally agreed to sell its interest to its Russian partner for less than half the value of its overall investment in the joint entity.

The third case study then focuses on a joint entity formed via the merger of a Russian company and US-based vehicle, in which both parties contributed all their Russian assets to the new company, and made significant efforts to ensure that the split of equity between all the parties reflected their contributions to the business. In addition, the foreign partners were very focused on “Russifying” the company as soon as possible and also on having a short-term goal of an IPO (Initial Public Offering) on the London Stock Exchange in order to provide a visible exit route and financial target for all the shareholders. The result was that all the shareholders were committed to the success of the joint entity and devoted their skill-sets to achieving it, resulting in the ultimate sale of the company to a US integrated oil company for a significant profit.

The chapter then concludes by using an interview with another anonymous foreign partner with experience of all of the features of the joint entities mentioned above to provide an overview of the conclusions that can be reached from the stories of foreign partner success or failure in Russia from the 1990s and early 2000s.

**Case study one**

This first case study concerns a joint venture which was formed in the early 1990s between a small North American oil company (we shall call it Texas Oil) and a Russian state-owned production association (named by us Moscow Oil). The joint venture was based on a relatively small but nevertheless significant field in the Tyumen region of West Siberia. The field had been discovered in 1969, but was left undeveloped by the Soviet authorities due to its size (par-