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Lead! Now! Go! (LNG): The Shtokman field and Gazprom's challenging, but not impossible partnership with Total and Statoil

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“In the process, yes, we had extra difficulties because of the cultural shock and the organizational shock – and Gazprom was not always easy to deal with. But you shouldn't think the project fell apart because Gazprom is such or such company”

Jacques de Boissésou, General Director Total E&P Russia

Introduction

The Russian state-controlled company Gazprom is the largest natural gas producer in the world. Gazprom's core business is the production and supply of onshore gas to domestic and European consumers by pipeline.

By the early 2000s, the demand for natural gas in the US market was set to grow, as were gas prices. Responding to these market projections, it made sense to develop liquefied natural gas (LNG), which would give the company a foothold in new markets and increase export flexibility. It would also help the Russian government with its policy objectives, such as supporting economic growth in the Arctic and Far East, the development of other industries, and strengthening of Russia's geopolitical position (Mitrova 2013, p. 6).

The Shtokman natural gas field, located offshore in the Barents Sea in the Russian Arctic, became the flagship project in Gazprom's LNG commitment (Stern, 2005, p. 165). Containing an estimated 1.3 trillion cubic meters (tcm) of natural gas, Shtokman is one of the biggest gas fields in the world. The resource estimates were later increased to a staggering 3.9 tcm.

As Russia's experience in extracting and producing offshore gas was limited, it made sense to work together with foreign companies (Moe 2006, p. 395). Gazprom needed partners with the necessary hi-tech knowhow and experience of managing offshore production facilities. The production and transport of gas from the Shtokman field to land facilities would cross longer distances than any other large field under production at the time and demand the best of the latest technology. Partners could also help Gazprom finance the project, share some of the risk and help them gaining access to the LNG market.

Several partner constellations were considered before a special purpose company named Shtokman Development AG (SDAG) was established in 2008 involving Gazprom, French Total, and Norwegian Statoil. SDAG would develop the first phase of the field, with an expected output of 12.5 bill. tons of LNG per year. But only four years later, the Shtokman project was indefinitely shelved.

Increasing cost estimates and market-wide reverberations from the rapid rise in the supply of shale gas in the US are usually cited as reasons for why Shtokman was not developed. In a recent article, Henderson and Moe (2016, p. 281) point to weaknesses in Gazprom's approach as an additional explanation of what they describe as 'Gazprom's failure to achieve the Russian state's desire to see the country become a force in the global LNG market.' They cite Gazprom's consistent reluctance to make firm decisions about foreign partnerships in relation to the Shtokman project. Gazprom, they argue, failed to respond in a timely fashion to advice concerning development options, despite the company's own lack of expertise (Henderson and Moe 2016 p. 286).

Gazprom's behaviour is often interpreted in terms of the pursuit of interests, be they commercial, political, or personal. Yet, their decision-making processes are not fully understood, and decisions may look irrational to an outside observer (see e.g. Orttung and Overland 2011). As a supplement to analyses of material or 'objective' factors, this article explores ideas of the stakeholders themselves, based on the assumption that the way they see the world and the way they think have an effect on how they act (see Jacobs 2015; Scott 2014; Abedal et.al.2009). Can we understand Gazprom's behaviour better by taking their perspective?

The aim of the article is not to reject the findings of other researchers, but to add nuance to an academic literature that is dominated by empirical research and rational choice theory.

Institutional theory is applied, emphasizing the Russian historical and cultural context Gazprom operates within. Is it possible to know exactly how Gazprom players reason and how their ideas affected their behaviour in the partnership with Statoil and Total? The answer is probably no. The article nevertheless breaks new ground by presenting first-hand reflections of players either directly involved in the Shtokman project or respondents with personal experience of working with Gazprom as a partner.

A total of 25 semi-structured interviews were conducted, most of which took place in person in Moscow, St Petersburg, and Oslo in 2016. In addition, the analysis rests on the author's participatory observations during extensive fieldwork, giving it features of a political ethnography. The media, consultancy reports, press releases, and academic research were also consulted for relevant information.

The paper begins with a literature review, followed by a brief account of story behind the SDAG partnership, before moving on to the interviewees' personal accounts and thoughts on the process. The findings are then discussed in a separate chapter with a view to identifying elements of the decision-makers' way of reasoning and the ideas this reasoning builds on.

Shtokman in the Russian institutional context

In spite of the scale and unique nature of the Shtokman project, it has not been treated widely in the academic literature. Moe (2010a, 2010b and 2006) has highlighted the potential, but also the uncertainties and challenges, of the project. Stern (2005), Mitrova (2013), Henderson and Pirani (2014), and Henderson and Moe (2016) write about Russian LNG at a general level, with Shtokman being but one of several projects discussed.

Shtokman had a particularly high profile in Norway, with its promise of rapid industrial growth in the northern regions and closer Norwegian–Russian ties (see Overland 2008; Mineev 2010; Moe, Fjaertoft and Overland 2011; Godzimirski 2007). As Jensen and Overland (2011) see it, however, scholars and commentators have overlooked the role of Total, not least in the public debate in Norway, where the Shtokman field was portrayed almost as if it were solely a Norwegian–Russian project.

Henderson and Moe (2016), who limit their study to the role of Gazprom, are not alone in pointing out weaknesses in the company's dealings with foreign partners. Mitrova (2013, p. 15-16), referring to the 'ill-fated Shtokman project' writes: 'Throughout the negotiations with foreign companies Gazprom became known for its inflated appetite, its constantly changing requirements of partners, and a desire to "squeeze" as much as possible from foreign partners.' According to Zygar and Panushkin (2008), Gazprom 'lured' Europeans and Americans to participate in the competition to develop the Shtokman project.¹ They do not explain what they mean by 'lured', but they may be attempting to say they while Gazprom wanted foreign participation, taking part may not necessarily have been beneficial for international oil companies.

Gazprom does not act in a vacuum, however. Decision-makers will be affected by norms and ideas entrenched in the company's institutional-political framework (see March and Olsen 1989; Scott 2014: 60; Pouliot 2010). Every individual also carries within themselves, say Hofstede, Hofstede and Minkov (2010, p. 4), 'patterns of thinking, feeling and potential acting that were learned throughout the person's lifetime' most being acquired in early childhood. In the case of Gazprom's decision-makers, they were born and raised in the Soviet Union, and most of them were educated in a system unlike any in the West.

As Hofstede (1993, p. 81) points out, 'management', as the word is normally used, is a concept developed in the United States, while in other parts of the world, not only the practices, but the entire concept of management, may be understood differently. He warns against assuming that theories developed in a Western cultural context are applicable to other countries, mentioning Russia in particular.

Russian society has changed significantly in the past decades, and Gazprom is a highly complex organization. Generalizations about what is typically 'Gazprom' and typically 'Russian' must therefore be used with caution. Nevertheless, certain traits do stand out, and can serve as a starting point for discussion.

Russia's engagement with the world has embodied several persistent patterns of thinking and behaviour during periods of monarchy and liberalism, Tsygankov (2016, p. 1) argues. Russia's foreign policy has, on his account, displayed a remarkable degree of historical continuity. What often determines Moscow's foreign policy choices is

¹ Translation by the author of the original wording: 'В течение трех лет Газпром заманивал европейцев и американцев.'

whether Russian officials perceive an acceptance of Russia as an equal and legitimate member of the international community in actions by the West (Tsygankov 2016, p. 4). Russia's incapability or unwillingness to adopt European diplomatic procedures has sparked intense symbolic struggles which in the modern era have taken the form of a 'relentless quest for status' (Neumann and Pouliot 2012, p. 106). The desire to be *treated as an equal partner* lies at the core of this social dynamic, exemplified in our time by various statements by the current President of the Russian Federation, Vladimir Putin. During the security conference in Munich in 2007, for example, Putin accused the US of an almost uncontained use of military force and declared that Moscow would no longer accept being treated without respect (Hedlund, 2014, p. 9).

In relation to Shtokman, Hønneland (2005, p. 113 quoted in Weisser-Svendsen, 2007) describes a high-and-mighty attitude: there is a perception in Norway, Hønneland writes, that Norwegians need to 'teach' Russians how to do things the Norwegian way. In Hønneland and Jørgensen's (2002, p. 114) study of Russian perceptions, their Russian interviewees asked them to tell Norwegians: '*We are not stupid, we are not ignorant, please give us something else than your never ending tuition programs!*' Similar attitudes to Russians are described by Smetanina (2014, p. 572) who writes about the typical mistakes Norwegians make when they do business in Russia. She quotes one of her respondents:

Business people tend to think according to their own model, their own market, their own way of working. And this is the model we apply when we negotiate with the counterpart. We take it for granted that the counterpart has the same thoughts – and if there is any difference we try to get the counterpart to think just as ourselves.

Today's management practices in Russia combine traits from the past with imported Western practices (Bourmistrov and Mineev 2012, p. 19). Traditional business culture in Russia has evolved through periods of feudalism and absolute power, and Russia still has structural and institutional features stemming from the command economy of the Soviet era (Mitrova, 2014, p. 31; Krjukov and Moe 2013). Elements of a traditional management culture still exist, including top-down information flows, reluctance to share knowledge, punishment of mistakes, preference for self-sufficiency, inclination to prefer short-term gains, and limited attention to the time-value of money (Lunden and Fjaertoft 2013, p. 8).

Russian business and politics often proceed informally on the basis of unwritten rules and norms, making it hard to obtain reliable data on how the system 'really' works (Ledeneva 2006; Wengle 2015, p. 55). As Ledeneva (2011, p. 723) explains, agents at all levels in Russia employ informal or 'extralegal' practices.

Henderson and Ferguson (2014), having analyzed foreign oil companies' partnerships in Russia, find that maintaining power rather than creating wealth is the main behavioural driver in Russia. They link this finding to the opportunities for vested (i.e. personal) interests to gain an advantage.

System insiders understand the difference between the way things are described and how they really work in practice, while outsiders, to a larger degree, rely on written sources (Ledeneva 2011, p. 721).

Informal practices, which from the outside may seem completely negative, arguably also fulfil a role in actually being what 'make things work' or the glue that 'keeps society together', insofar as they are responses to the inadequacies of formal practices (Ledeneva 2006; see also North, Wallis and Weingast 2009). Limited knowledge of informal practices and their practical consequences for decision-making,

in combination with a clash of management cultures and world-views between Gazprom and foreign players may open for an interpretation of the *other's* behaviour as irrational.

Rationality, however, is not an unambiguous concept. In economics, individuals are seen as rational when they seek to maximize utility. In sociology, however, individuals are also assumed to follow the norms of society into which they have been socialized. Based on March and Olsen's work (1989, 1998), we can distinguish between a logic of consequentiality and a logic of appropriateness. From a norm-based perspective, emotions such as 'pride' and 'shame' regulate behaviour rather than a quest to achieve goals or fear of sanctions (see Scott 2014; Peters 2012).

The Russian gas industry was built during the Cold War without foreign support, and the sense of self-sufficiency has remained a source not only of corporate culture, but also of national pride (Gustafson 2013; Högselius 2012). Energy has been at the forefront of scientific research and technological innovation for more than a hundred years, and the Soviet Union was a world leader in some of those technologies (Rutland 2015, p. 83). If Gazprom's reasoning is norm-based, even in part, we would expect some of their behaviour to reflect this desire for respect and recognition.

Russia's national identity is arguably also linked to a self-perception as an *embattled fortress* (*osazhdennaya krepost'*), which means that defending borders and avoiding internal disintegration are essential to the Russian way of thinking (Rutland 2015, p. 79). This could explain the sense of caution and suspicion in relations with other states. The author has on various informal occasions been told by Russians that while Russia has never gone to war against any other country, other states have often attacked them. In this narrative, regardless of the truth of this assertion, Russia is perceived as a peaceful state surrounded by potential enemies. From this point of view it makes sense to limit foreigners' opportunity to influence Russia's strategically most important industry.

Shtokman from the outside

The Shtokman field was discovered in 1988 and the Soviet Ministry of Gas Industry initiated an international consortium, 'Arctic Star', as early as the following year to develop it. Gazprom, at the time organized as a state 'concern' outside the ministry, only became involved in 1992, but soon acquired de facto control of the entire project. The foreign consortium was pushed aside. Gazprom, however, soon established a new group of foreign companies to help it plan the project. This group, consisting of some of the same companies of the Arctic Star group, included Norsk Hydro, Fortum, Conoco, and Total. In 2002, the group was dissolved.

Throughout the history of Shtokman, support for either a pipeline or an LNG strategy has swung back and forth. In 2003, Gazprom announced that it would begin supplying Shtokman LNG to the US by 2010 (Mitrova 2013, p. 16). Soon after, Gazprom organized an international tender with a view to creating a consortium to oversee the planning and implementation of the field's first phase, which at that point was to be a purely LNG project. At least one company was expected to be from the US, but in fact all the big international oil companies showed an interest (Moe 2010a, p. 13). Five potential partners were shortlisted by Gazprom: Statoil, Norsk Hydro, Total, Chevron, and ConocoPhillips.

On 9 October 2006, Gazprom's CEO, Alexei Miller, suddenly announced the cancellation of the tender. Gazprom would develop the field alone. This decision was made shortly after studies had increased proven gas reserves to 3.9 trillion m³ (Mitrova 2013: 16). None of the short-listed companies was informed of the cancellation

beforehand.² Instead of developing LNG, gas from Shtokman would be piped to European markets.

However, the following summer, Gazprom announced that the French company Total would be in charge of the first phase of Shtokman. On July 13, a deal was signed giving Gazprom 51 per cent and Total 25 per cent of a special purpose company to be set up to develop the first phase of the field. A third partner would have a 24 per cent stake. On 25 October 2007, this third partner was announced: it would be Statoil Hydro (renamed later as Statoil). In 2008, Gazprom, Total, and Statoil formally established the company Shtokman Development AG (SDAG) to be based in Switzerland. The model satisfied two requirements: the foreign companies could not own any part of the license, which was prohibited under Russian law. Second, the venture was of sufficient commercial interest to the foreign companies for them to make a substantial investment (Moe 2010a, p. 14).

The development and operation license remained in the hands of a fully owned Gazprom subsidiary, Sevmorneftegaz, which in 2009 was reorganized and renamed Gazprom Neft Shelf. It was basically the offshore development department of Gazprom. SDAG was supposed to finance, build, and run the first phase of the Shtokman project, projected to last 25 years. At that time, the infrastructure would be transferred in its entirety to Gazprom without compensation. The second and third phases of the project would be undertaken by Gazprom itself through another subsidiary, Gazprom Dobycha Shelf. Gazprom would be responsible for selling the gas on the market in all three phases.

The final investment decision was initially scheduled for March 2010, with production starting three years later. By the beginning of 2010, the SDAG companies had spent nearly one billion US dollars on preparations alone. But as the estimated cost of the project ballooned, gas prices were falling from a high of \$9/MMBtu to around \$3/MMBtu (Stern 2014, p. 278). Rising costs and falling prices compelled the SDAG partnership to recalculate the Shtokman costs based on new assumptions (Moe 2010a: 15). On 5 February 2010, Gazprom announced the postponement of the final investment decision to 2011. The existing cost estimates were very uncertain, and the three companies backed different technological approaches. In the event, the final investment decision was postponed several times.

In 2012, on the expiry of the Shtokman partnership agreement, Statoil walked away, writing down a loss of around NOK 2 billion (USD 336m³). In August 2012, Gazprom announced the end of the Shtokman partnership because the partners believed project costs would be too high to make the field economic to develop⁴.

² For example, Statoil released a statement on their website, October 9 2006 under the heading ‘Gazprom to go it alone on Shtokman’: ‘Russian energy group Gazprom has today stated in a press release that they will develop the Shtokman field without foreign partners (...) Today’s announcement by Gazprom was not expected.’

³ Natural Gas World: <https://www.naturalgasworld.com/statoil-steps-back-from-shtokman-stake>

⁴ *Vedomosti* (2013, 3 June). ‘Газпром’ может отказаться от разработки Штокмана. Interview with Kruglov. Retrieved from: http://www.vedomosti.ru/business/articles/2013/06/03/shtokman_ostavlen_na_budushee (17 January 2017).

The argument that Gazprom was reluctant to work with foreign companies to develop Shtokman (Henderson and Moe 2016) makes sense given the various constellations considered, and the final 2006 decision to develop the field.

Exactly why Gazprom decided to develop the field alone is not known. It was possibly based on a genuine belief that the Russian gas giant could manage without foreign support. It might also have been a ploy to gain leverage in negotiations with potential partners. The official reason was that none of the bids from the five short-listed companies was sufficiently attractive (Mitrova 2013, p. 16). They had, for example, failed to offer asset swaps, although asset swaps had never been presented by Gazprom as a precondition of participating in the Shtokman venture (Moe 2006, p. 390). But the announcement may also have been politically motivated. The decision to transport the gas by pipeline to Europe instead of shipping LNG to the United States could have been a signal to Germany that the European market was a priority for Gazprom.

While some have interpreted Gazprom's failure to keep potential partners informed as symptomatic of Russian *arrogance*, the real reason may rather have been the decision-making process (Moe 2016, p. 392). The decision to abandon the consortium was taken without wide-ranging consultation, with only a very few having an opportunity to express an opinion Moe (2016, p. 392) suggests. It is clear, he contends, that the decision had not been considered by the government. The Russian minister of energy and industry, for example, was not informed. Indeed, only hours before the declaration he gave a presentation mentioning Shtokman (Moe 2016, p. 392). The person at top of the process was, in Moe's account, the Russian president, Vladimir Putin. Putin had said some weeks earlier in an interview that some of the gas could be delivered to Europe (Moe 2006: 392). So the decision was probably made by the president's administration, rather than Gazprom, Moe concludes (Moe 2006, p. 393). Several sources interviewed for this article also suggest that the top political level was the likely locus of the decision.

In 2007 Gazprom suddenly declared that the field would be developed with foreign partners anyway. The Russians' choice of the French oil giant Total some months later as Gazprom's main partner was possibly based as much on political as commercial considerations, according to Jensen and Overland (2011, p. 389). They cite common French–Russian opposition to the EU's suggestion to create a new energy directive. Becoming a Shtokman partner was possibly part of a barter between Russia and France (Jensen and Overland 2011, p. 396).

Other analyses focus more on Gazprom itself in the search for an explanation. Mitrova (2013 p. 16), e.g., writes that by the beginning of 2007, Gazprom had '*realized the impossibility of independently developing the Shtokman field*'. She does not, however, say what kind of internal process may have caused such a sudden change in policy. Did Gazprom become privy to new information during these months, persuading it to do it alone?

Shtokman from the inside

In the joint company Shtokman Development AG (SDAG), Gazprom had leadership for the entire company and was also responsible for Health Safety and the Environment (HSE), communication, as well as most of the finance and procurement activities. The first CEO of SDAG was Yuriy Komarov, an experienced Gazprom veteran.

Total led the project itself and was responsible for the design engineering, the studies, and the call for tenders in cooperation with Statoil. Statoil, in turn, had quite a

number of seconders in the project team and also in the finance area, and also had the finance directorship of the special purpose company. The board of SDAG was chaired by Gazprom's CEO Alexey Miller, while the CEOs of Total and Statoil, Christophe de Margerie and Helge Lund, were members.

The fact that the CEOs of the three companies sat on the board and were as such directly involved in the management of the project was unusual. According to Jacques de Boissésou (2016), General Director Total E&P Russia and General Representative of Total in Russia, this had advantages as well as disadvantages. On the one hand, the senior management could make decisions quickly. On the other, however, if every problem had to be sorted out at the top, it would be cumbersome. It is usually easier to solve problems on the ground. *'You had a lot of interference and a lot of intervention from the shareholders at the board of director level of the joint venture.'*

It is broadly agreed that President Putin himself is the main decision-maker at Gazprom, and the company is required to take instructions from him (Henderson and Stern 2014: 300; Zygar and Panushin 2008, p. 96). Several sources interviewed for this article confirm the president's personal input to prioritize the Shtokman field. While there is some debate as to the degree to which the management of Russia is personalist (see e.g. Fortescue 2016), the leader of Gazprom, Alexei Miller, is described as holding the position due to his loyalty to the president, as one of his 'trusted lieutenants' (Henderson and Stern 2014, p. 308).

Bengt Lie Hansen (2017) was responsible for Statoil Russia operations when the partnership was established. He had been project director and chairman of the license group developing the Ormen Lange field in the Norwegian Sea. He was given the job of negotiating with Gazprom to get Statoil into the Shtokman project.

The dynamics between business and politics in Russia is demanding, he says, and it was difficult to understand the driving forces on the Russian side and how the decisions were made. In such big project it was evidently close relations between the Kremlin and Gazprom top management in this process.

Somewhat paradoxically, some interviewees describe a hierarchical form of management where everyone working at SDAG followed direct commands from the top, with nobody daring to challenge the leader, while others describe an unclear hierarchy between the Russian players in SDVG. When Boissésou (2016) was asked whether the main Gazprom players in SDVG were part of a hierarchy he responded:

No, that is part of the problem; there was no real hierarchy among them, because if you have a hierarchy there is a decision-maker in the end. Here it was sort of a convergence if it works, and divergence if it doesn't work – and with nobody really able to impose a decision.

The most powerful figure in SDAG, Boissésou says, however, was Alexei Miller:

Not only because he is the main shareholder and arbitrating in the last place, but also because he seems to have and enjoy the trust of the President. But it is difficult, because he is the boss and he sometimes makes the last shot, but not always.

'We were keen to be part of the Shtokman project'

Several interviewees believe most of the major decisions had been made by Total and Gazprom before Statoil came on board. When Statoil was finally accepted as a partner, Gazprom and Total had already decided to go with Total's approach. Total could also

veto decisions, something that came as a big surprise and disappointment to Statoil, according to some informants.

This account supports Jensen and Overland's (2011) conclusion that Total played a more important role in the partnership than the Norwegian media assumed. Their view is strengthened by Total's country manager (Boissésou 2016) commenting on the balance of power between the partners:

It is true that inside the project Statoil had a junior role compared to Total because we were there first, and therefore we had taken a number of decisions and occupied a number of positions even before Statoil came in, which doesn't mean that Statoil didn't have a role, and a significant role (...). But I can imagine there was some frustration in Statoil in being the junior partner.

Lie Hansen (2017) describes the initial phase of the partnership during which Statoil's views were not taken into account:

Statoil did not see the project ready for concept selection based on the studies made so far. We wanted to see how far we could implement the Ormen Lange field technology in the Shtokman project, before any concept select, but did not succeed.

The development and organization of the SDAG project was nevertheless based on cooperation and more equality between the partners.

Gazprom officials have not been willing to speak on the record for this article. The CEO of Shtokman Development AG (SDAG) until 2010, Gazprom's Yuriy Komarov, did said in an interview⁵, however, that Total won the tender because it 'indisputably [offered the] most favourable terms ... strongly [speaking] in favour of exactly this company being the winner'.⁶ While this proves nothing in and of itself, it suggests that Total may have offered Gazprom a better deal after Gazprom's decided to develop the field without foreign partners. If this is correct, Gazprom – or Putin – were clearly somehow persuaded to change their mind. It could also be that Gazprom, aware of Total's interest in the project, worked successfully to get a better deal. This again would support Mitrova's (2013) description of Gazprom's attempts to 'squeeze' foreign partners for as much as they could get. An anonymous Western oil company representative, however, rejects any criticism of Gazprom in this regard. Making a business deal as lucrative as possible is ordinary profit maximizing behaviour. Any company would do the same, he says.

The German oil company Wintershall has a very long history of working with Gazprom, and has been present in Russia for over 25 years. Wintershall was not involved in the Shtokman project, but their country manager in Moscow, Margarita Hoffmann (2016), also disagrees with those who call Gazprom's scepticism of foreign partners unreasonable:

Of course Gazprom is reluctant to give away their resources and they should be reluctant as long as they don't get something more valuable to them in return (...)

⁵ Gazprom (2008). Штокман остается Российским проектом [Shtokman remains a Russian project] «Газпром» №3, Март 2008 [March, 2008].

⁶ Author's translation of: 'Тотал с бесспорным преимуществом выиграл этот тендер. Экономика четко говорила что именно эта компания является победителем.'

Gazprom always compares: *‘what can we do alone, and what is the value added if we add a partner?’*

It is the partner that needs to prove that value can be added, she argues:

Of course, there’s always give and take, a partnership’s always give some, take some, bargaining and limits to how far you can go to serve economic needs and the needs of the partners. But in our 25-year experience, if you manage the balance between giving and taking, you’ll always find common ground with Gazprom.

While Zygar and Panushkin (2008) talk about ‘luring’ partners into the project, a Statoil official with a central role in the partnership, Kjærnes (2016) tells a different story, emphasizing how much Statoil did to be selected as Gazprom’s partner:

We were keen to be part of the Shtokman project. For the Norwegian authorities, for Statoil, and for Hydro, this prototype of Norwegian–Russian cooperation was very important (...) it was prioritized at the highest political level, we felt we were part of something big – finally, finally we had managed to work on a joint project with the Russians – that’s how it felt.

Several respondents have also argued that participating in the Shtokman project was of the highest priority also for Total. Lie Hansen (2017) asserts that the project was extremely strategically important for the French oil company, to such a degree that it could appear that the economy was somehow subordinate. Gaining access to the gas resources was seen as an important long-term investment, since gas prices were expected to rise.

By bringing foreign companies on board, Gazprom expected to gain access to offshore technology. Shtokman could possibly be developed in a fashion similar to that of the Ormen Lange field and Snøhvit LNG project in Norway. Gazprom would get state of the art technology, and the possibility of a profitable project. This, according to respondents, was the message the foreign partners ‘sold’ to Gazprom.

Responding or not responding in a timely fashion

From the creation of SDAG, project shareholders had disagreed over technological issues (Mitrova 2013, p. 18). Interviewees describe a situation in which Total had the upper hand in decisions on technology until 2010, when Gazprom took a more assertive role.

Between 2005 and 2012 the estimated costs of the project had increased from \$15 billion to more than \$45 billion (Stern 2014, p. 278). The causes varied, but included the balance between LNG and pipeline gas, the location of the liquefaction plant, the possibility of remote field development by subsea tie-back, and maintenance of the platform and crew in harsh Arctic conditions (Stern 2005). Several sources describe a situation where it was hard to go back on decisions, even if they were recognized in hindsight to be less than optimal. It became a question of carrying on with what one had – or starting again from scratch and risking delays – after a whole lot of negotiations and a cumbersome decision-making process. Boissésou (2016) puts it this way:

The farther you get into the project, the more of the important decisions have already been taken. You can’t just go back and re-write the history. In particular

because each of the shareholders has done its homework and obtained internal approvals up to the very top of its company

Gazprom was apparently becoming increasingly alarmed by the rising costs, and started suggesting alternative ways forward. The foreign partners refused to support ‘costly and risky schemes’ proposed by their Russian counterparts, Mitrova (2013, p. 18) writes. Total, despite the new cost estimates, continued to push hard for a final investment decision on their preferred development solution.

On the internal discord in SDAG an anonymous Russian source (2016) comments:

Gazprom had let Total run the project for several months without control. Komarov had a high degree of faith in the French, who continued to press for their solution. Total meant that if one considered alternative solutions the project would be delayed. The solutions Total tried to press through were not necessarily the best. But everyone at that time thought the gas prices would only go up, implying that the field could become profitable in the long run. And they [Total] believed it would be impossible for the Russians to go back after so much money had already been spent.

The internal disputes in SDAG became public knowledge when the CEO of Total, Christophe de Margerie, gave an interview to the Russian newspaper *Kommersant* in July 2010⁷. The partners had different views on the technological side of the field development scheme, de Margerie said. Time was running out and the final investment decision couldn’t wait much longer without overrunning the deadline. The same article in *Kommersant* also refers to an incident when Margerie allegedly had approached then Prime Minister Vladimir Putin directly, asking him to urge Gazprom to abide by the terms of the agreement in the development of Shtokman. When reminded of this, Margerie responded,

I did not put pressure on the Prime Minister and ask him to influence Gazprom. I did not mention the word Gazprom, I simply asked him to help us complete the project on time and not to delay it. There is a need to determine its configuration, because without it is impossible to make an investment decision.

An anonymous Russian respondent (2016) speaks of a high degree of irritation and dissatisfaction within Gazprom with Total for trying to pressure Putin – and then using the media to get its way with Shtokman. This was not seen as the appropriate thing to do. But there was also a self-critical attitude in Gazprom: ‘if you let the fox guard the chicken run, you shouldn’t be surprised about what it eats for dinner.’

In the *Kommersant* interview, de Margerie (2010), in line with Henderson and Moe’s argument (2016, p. 286), accused Gazprom of not responding in a timely fashion. The window of opportunity for Shtokman was small – it was now or never, he argued.

⁷ *Kommersant* 16 July 2010. В проекте такого масштаба мы все в одной лодке глава Total Кристоф де Маржері оценивает перспективы работы в России [accessed February 22 2017] <http://www.kommersant.ru/doc/1419441>

According to our estimates the price of gas will remain fairly low the next three to four years. After that they will gradually grow because few new projects will be running. It therefore makes sense to invest now - when prices rise it will be too late.

Margerie's interview confirms the idea that Total was counting on rising gas prices to justify their policy. When asked whether unconventional hydrocarbons ever would be a real competitor to traditional extraction, de Margerie (2010) said that despite high production of shale gas, it would not be enough to meet the growing demand for natural gas. In hindsight, we know his expectations were far too optimistic: the price of natural gas did not rise and the shale gas revolution made the US practically self-sufficient in gas.

Gazprom has been widely criticized for not seeing the shale gas revolution coming, but the interview shows that they were not alone in underestimating the consequences. In Russia, it was commonly argued that talk about the unconventional energy boom was 'propaganda' with the intention to weaken Russia.

Lie Hansen agrees, this was indeed a common attitude: Yes, the way of interpreting the reports about shale gas revolution was 'The West wants to shatter Russia' Gas is Russia's most important export product. It was clearly a shock to them that the US became self-supplied and did not need any more LNG imports.

Doing it the Russian way

The internal conflict ended with the resignation of the CEO of Shtokman Development AG (SDAG), Yuriy Komarov, in April 2010 (Mitrova 2013, p. 18). According to Mitrova (2013, p. 18), many thought Komarov had given too much support to Total's technological solutions.

Boissésou (2016) explains the change of CEO in the following way:

They [Gazprom] thought that they had somehow lost control on SDAG, and Yury Komarov was sort of a loose cannon, in the Gazprom system (...) they thought he became too independent, and not enough aligned with Gazprom, whatever that means (...) It was not that he [Komarov] went against Gazprom or was regarded as non-performant. I think it was more that there were so many disagreements. Gazprom said they wanted someone to set the direction and that's it.

Komarov, described by interviewees as a 'true Gazprom product', had an open leadership style, not unlike that of Western business managers, several sources report. He was replaced by Alexey Zagorovsky whose leadership style is described as more traditionally Russian. Gazprom, say several respondents, pretended to impose its own solutions, through the much stronger management style of Zagorovsky. This approach allegedly involved the *prikaz* system of decision-making (Kjærnes 2016; Boissésou 2016). Directly translated, *prikaz* means 'order' or 'command'. In practice, the workers were micromanaged by the CEO himself. As the head of SDAG, Zagorovsky personally delegated assignments and deadlines to every employee.

This is in line with other descriptions of Russian management culture. As Lunden and Fjaertoft (2014) have pointed out, decisions are made at the top, and not questioned. Dependence on one's immediate superior fosters an 'always-right' type of management culture, they contend. The higher you are in the hierarchy, the more you are expected to know than employees further down. Suggestions from below may be

interpreted as criticism and a challenge to authority. Questioning your boss may therefore be counter-productive, not unlike in many other cultures. The balance of power between managers and employees makes it difficult for employees to know how and why decisions are made, resulting in a need for detailed instructions (Bourmistrov and Mineev 2011, p. 22).

Norwegian management culture is, in contrast, highly egalitarian (see Hofstede, Hofstede and Minkov 2010). Managers are expected to explain every decision, and it is generally accepted that employees can openly disagree with their superiors and suggest other options. Norwegian employees, according to some respondents, can be unwilling to carry out what in their view are 'stupid' instructions. Unless Russian managers have a thorough knowledge of Norwegian management culture and its benefits, they could easily see Norwegian employees as unruly and difficult to deal with.

French management culture is somewhere in between these two extreme points, but is clearly different from Norwegian and Russian practices. Russia's relations with the French were also very different from its relations with the Norwegians; the extent of experience and involvement of the two companies in Russia differed significantly too (Overland and Jensen 2011, p. 403). When SDAG was established, Statoil had only one project in Russia: a share in the Kharyaga field in the Nenets Autonomous Okrug (NAO) operated by Total. The latter, on the other hand, had several hundred employees living in Moscow with their families. Statoil's footprint in the country was much smaller. Many of Statoil's people in SDAG commuted between Russia and Norway, often spending the weekends at home. Experience with and knowledge of Russia and its customs were arguably more limited therefore than they could have been. This has been confirmed unofficially.

As a result, people from three management cultures were expected to work together and, as one Russian respondent, puts it, 'It took a lot of effort to translate one party's way of thinking into an understandable language for the others.' Words, respondents explain, did not always mean the same to the Russians and Western partners. And in some cases, fear of losing face hindered people from asking necessary questions, respondents contend.

Could have succeeded

By 2012, the expected cost of the project had turned it into a non-viable proposition. Project costs were nearly four times more than initially expected, making the project unprofitable even before taxes. Everyone interviewed for this article says it was right to cancel the Shtokman field project, despite the enormous prestige invested in it.

Shtokman was not the problem, insiders argue, but the huge capex increase in the whole oil and gas industry. This led to a need to reconsider everything, including Shtokman, which priced itself out of the running after costs increased across the board.

And it would not have made any difference, according to insiders, if they had made a final investment decision a couple of years earlier. As a Russian respondent puts it, Gazprom had already missed the boat by as early as the 1990s when Shell and Total got a whiff of the LNG business. The Russian economy was suffering badly in the 1990s after the break-up of the Soviet Union, and there were other priorities too, such as keeping onshore fields in production to shore up the economy.

Cooperation between the partners was challenging, interviewees from the partnership admit. Lie Hansen (2017) says he was surprised to see so few Gazprom employees working in the project. Most of the Russian staff in SDAG were hired

consultancy workers, he says, and learning from the project took place mainly in Statoil and Total – not in Gazprom.

I learned later that the reason for this was a law that did not allow Gazprom to second people to SDAG without leaving their job in Gazprom. And hardly no-one would leave a safe Gazprom job for a more risky job in the Shtokman project. In Norway we learned from the foreign companies by working together in developing our offshore technology in the early days of this industry.

Several sources, however, reject the idea that collaborative difficulties were decisive for the future of the project. Boissésón (2016) for example, says:

In the process, yes, we had extra difficulties because of the cultural shock and the organizational shock – and Gazprom was not always easy to deal with. But you shouldn't think that the project fell apart because Gazprom is such or such company.

The project failed in his opinion not because of Gazprom's failure to collaborate effectively, but because it was extremely difficult in terms of technology and infrastructure and therefore expensive. The consortium was trying to do some of the most difficult things in the whole oil and gas industry: a) to construct and operate an LNG plant where there was practically no space to build one, b) to extract gas from a platform in Arctic waters under extremely challenging weather conditions further away from the coast than any other field in the world, and c) to lay an extraordinarily difficult pipeline. 'And we pretended we were pushing the project forward at a time when market conditions were not the most favourable', Boissésón (2016) remarks. But 'everything we have discussed so far is of minor importance', he said, 'because what sunk the project in the end was that it was too expensive.'

After spending five years getting to know each other and learning how the different partners reasoned, other sources point out, the project could have succeeded if it had been commercially viable. They include the current leader of SDAG, Pavel Oderov, who has stated that the results of the project's research and development work, as well as Gazprom's experience of working with foreign partners, 'are of practical interest and will find application in the further activities of Gazprom.'⁸

Need to lead

In addition to the points accounted for above, two ideas run like a thread in many interviewees' descriptions of Gazprom; the 'need for full control' and the 'need to lead.'

According to a Russian consultant, Gazprom's business culture is particularly focused on having the 'upper hand', and not giving anything away to anyone. '*What foreigners may not understand is how important it is for Gazprom to lead. It may be*

⁸ <https://neftegaz.ru/news/view/152968-Gazprom-uporyadochivaet-kadry.-Ispolnitelnym-direktorom-Shtokman-Development-AG-stal-P.-Oderov> Результаты проектно-изыскательских работ Штокман Девелопмент АГ, накопленный компанией опыт работы с зарубежными партнерами представляют практический интерес и найдут применение в дальнейшей деятельности Газпрома, уверен П. Одеров.

unpleasant to discover.' Although Gazprom works with partners, it considers them essentially as subcontractors, he says, not due to lack of trust, but because of the style of corporate governance.

They want to secure their interests. They are seldom willing to give up anything at all, they want to secure themselves on all fronts, and they *rather have that security than financial efficiency.*

Another consultant, a foreigner with decades of experience of working in the Russian gas sector, expresses similar views.

My understanding is that they can do things, but only if they have absolute control. My interpretation is that this is related to the opportunity for vested interests. If they don't have control there are no opportunities for vested interests. Most foreigners misunderstand this, only some few understand the dynamics.

An additional explanation for Gazprom's attitude might have something to do with their self-image in relation to others. Lie Hansen's perception was for example that some Gazprom representatives saw themselves as members of a nobility, the kings of the hill: 'They expect the servants to work, while they make decisions while not really knowing the field they are making decisions about.'

Boissésou (2016) also talks about a culture of control – which in his account is characteristic not only of Gazprom, but also of other Russian energy giants:

I don't know if it comes from historical roots – what I observe is that it is not easy to do business either with other major State-owned companies. Ask others what they think about it, I am sure they will tell you the same. I think it has to do with the size of company, a consciousness that they are superior, specific, unique – whatever you want, and that they shouldn't be treated like the rest of the world. This probably requires from us a particular effort to adapt to a different management culture because we [in the West] are used to be in a world of equals.

This behaviour can be related to the hierarchical and centralized decision-making structures in Russia. Asking junior staff for advice might be seen as a sign of weakness on the part of the manager. 'How can employees respect a leader who asks them for advice? Doesn't he know his job?' This view on appropriate behaviour is the opposite of the consensus-driven Norwegian management style where some decisions are delegated to the bottom of the organization (Bourmistrov and Mineev 2011, p. 22). If asking Russian subordinates for advice is perceived as inappropriate and humiliating, it is easy to imagine how much more inappropriate it must have felt to ask *foreign* subordinates for advice. The critical reader may object. 'This isn't a rational way of reasoning if what you're aiming for is to develop an LNG production capacity and you lack the skills to do so yourself.' But if rationality is understood from a norm-based institutional perspective, acting on what comes across as the most appropriate behaviour *is* rational (March and Olsen 1989).

Who should adapt to whom?

It took 20 years from the discovery of the Shtokman field to the creation of SDAG, with several constellations being considered and rejected along the way. Gazprom's

reluctance to enter into foreign partnerships is well argued for (Henderson and Moe 2016). At the same time, Gazprom did, in the end, establish a foreign partnership to develop the field. In that sense, the company can also be seen as ready to change its working methods in order to exploit new market opportunities. There are also examples of Gazprom working successfully with other foreign oil companies, not least German Wintershall, for more than 25 years.

What from the outside appears to be the most ‘rational’ behaviour by Gazprom does not necessarily mean that its decision-makers reasoned in the same way. What is regarded as a win-win situation in a Western perspective, Wintershall’s Hoffmann (2016) argues, is not necessarily seen as beneficial to the Russian part. She particularly emphasizes the Russian desire to be respected by Western partners, not looked down upon.

Gazprom’s perspective is that ‘we are not a junior partner to you. We would like to be perceived at least equal. And in some things we could even teach you how to come out of difficult situations and which solution should be applied, which rules.

This description chimes with the claim that the desire to be acknowledged is as a central feature of Russian national identity (Tsygankov 2016; Neumann and Pouliot 2011). Another question is whether Gazprom really *needed* foreign partners – and to what degree the partners needed Gazprom. This would arguably influence the bargaining power. If Gazprom needed the project more than the partners did, one could expect them to take a more humble role.

Judging from Gazprom’s official statements, the development of an LNG capacity was very important, and to do it, Gazprom needed foreign partnerships. Reluctance to contemplate working with foreign partners could hence be interpreted as irrational. On the other hand, one may argue that despite official statements, LNG was perhaps not as important to Gazprom as it appeared from the outside.

The data presented in this paper indicate that Shtokman was extremely important to Statoil and Total, perhaps more than has been generally known. While Zygar and Panushkin (2008) talk of Gazprom ‘luring’ foreign partners into the project, Kjærnes is preoccupied with assessing the importance to Statoil of becoming a partner in the Shtokman development. Total’s insistence of going on with the project, despite increasing costs, also suggests an attitude within Total of wanting to strengthen their foothold in Russia, practically at any price.

It can thus be argued the foreign partners may have needed Gazprom as much or even more than Gazprom needed them. As Kjærnes (2016) points out, Gazprom was happy to go along with the foreign partners as long as they were willing to take most of the risk – providing the technology and financing the project. But this does not mean they were willing to take high risks themselves.

During the second half of the 2000s, many commentators became concerned because Gazprom had not invested sufficiently in future production. They were worried Gazprom would not be able to meet its export obligations. But this criticism of Gazprom was somehow unfair, Stern (2014, p. 262) argues, because the company was in fact considering various development options, and also weighing the effects of market changes to its supply strategy. While Gazprom’s indecision in the mid-2000s over its supply strategy seemed to put at risk its ability to meet future demand, he argues, ‘with hindsight the company’s reluctance to rush into major capital expenditure commitments seems entirely justified’ (Stern 263, p. 2014). The main alternative to Shtokman was to expand the onshore gas plant on the Yamal peninsula. The

development of a gas production capacity on Yamal was a parallel process which in the end was carried out, while Shtokman was put on hold.

According to Lie Hansen (2017), there were two competing factions within Gazprom. The first comprised the Shtokman men, with the 'export general' Alexander Medvedev at the helm, a keen advocate of developing an LNG capacity. If Gazprom was to be a world-leading exporter, they needed to offer more than pipeline gas, people in this fraction argued. Then there were the people who preferred the Yamal option, led by Alexander Ananenkov. 'We know Yamal – and on Yamal we are playing on our home turf', he said. Like Shtokman, the Yamal project was also tremendously complex, but at least it was on dry land. And because onshore production is Gazprom's core area of expertise, there was no need to establish a foreign partnership to develop it. It was far more rational for Gazprom to develop the Yamal facility, several sources argue.

But developing LNG from Shtokman implied letting go of some control and following the advice of more experienced partners. Henderson and Moe (2016) point to Gazprom's unwillingness to follow the advice of foreign partners in a timely fashion. The new data, however, indicate that Gazprom initially, under Komarov's leadership of SDAG, did trust and listen to its foreign partners. Respondents speak of Total's strong role in the consortium – thanks to the high degree of trust Gazprom placed in the French company. Total urged the Russians to base their investment decision on their preferred technological solution, which Gazprom initially agreed to do. Gazprom, however, began to back away from the concept and present alternatives just as time, according to Total, was 'running out.' When Gazprom proved reluctant to decide on the investment, project costs had already exceeded what representatives of all three companies in hindsight believe made the project commercially viable.

Total's impatience with Gazprom is explained by its expectations of higher gas prices, which in the event never materialized. In hindsight we see that it may not have been in Gazprom's interest to follow the advice of its foreign partner.

Several respondents independently of each other tell a relatively coherent story about the conflicts within the consortium, which increases the trustworthiness of their evidence. As we have seen, some of the foreign respondents are critical of Total's and Statoil's behaviour – and even come to the defence of Gazprom.

The description of Gazprom's need for control tallies with Henderson and Ferguson's (2014) argument that control is more important than value creation in Russia. According to several sources, this is key to understanding the Russian style of management and governance.

Control of resources would allow insiders to distribute rents to the system based on informal practices. It is beyond the scope of this article to determine the role played by vested interests in the case of Gazprom – but it is well documented that informal practices exist and are widespread in Russia. This explanation can therefore not be ruled out. Gazprom's behaviour would also make more sense given the context in which they operate – and cannot easily change.

From a rational choice perspective, decision-makers may ask 'how do we achieve the goal of developing LNG?' They may also ask, if vested interests are the motivation: 'how do I achieve the greatest personal benefits to myself or the group I belong to?' From a norm-based institutional perspective, however, as discussed in the former section, the behaviour of decision-makers in Gazprom would be informed by their notion of appropriate behaviour (March and Olsen 1989, 1998).

Developing LNG arguably required a certain kind of behaviour (e.g. establishing partnerships and letting go of control) but perhaps decision-makers, rather than looking

at how they could reach the goal, focused on what decision-makers of an organization such as Gazprom in interaction with foreign players counted as appropriate behaviour.

Conclusion

This article has highlighted some of the complexities of the partnership of Gazprom, Total, and Statoil.

In the 2000s Gazprom was set to develop a LNG production capacity. Developing foreign partnerships was a rational approach to gaining access to offshore technology and to share risk. Gazprom did establish the special purpose company Shtokman Development AG with foreign partners, but it took many years to get there. When they did they were apparently reluctant to cede control on their home ground, or take advice from their foreign partners (Henderson and Moe 2016).

Can we understand Gazprom's behaviour better if we try to look at it from their perspective?

An analysis of Gazprom's manner of reasoning and how ideas affected their behaviour is limited by the lack of open sources. We can only imagine how the full story may have been, and there is necessarily an element of speculation involved. This is something shared by most research on Russia, however, with researchers standing on the outside trying to get a glimpse of what is going on inside the metaphorical *black box*. The strength of this article lies in the interviews with insiders with personal knowledge of decision-making processes and decision-makers.

Interestingly, several former and current partners of Gazprom have come to its defence. Respondents point to real conflicts of interests between the three partners, but also the lack of mutual understanding given the different norms and ideas prevailing in each of the organisations. Misunderstandings caused by 'not speaking the same language' occurred even when they all used the same words. Several respondents criticise themselves for not placing enough emphasis on understanding Russian decision-making practices and their cultural rationale.

The article finds that what from the outside appears to be the most 'rational' behaviour or 'win-win' situation for Gazprom does not necessarily reflect how the decision-makers reasoned. Decisions may reflect what is perceived as appropriate behaviour in different situations rather than being based on a calculation of consequences.

In the case of Shtokman and foreign partnerships, some of Gazprom's actions might reflect a desire to be respected and recognized – to avoid feeling challenged or humiliated by foreigners on their home turf. In many cases, Gazprom executives (as well as their foreign partners) were nevertheless following normal business practices, which they had learned and *internalized* throughout their career. It is not given that the three parties were conscious of how things were done in each *other's* institutional context and how ideas and world-views differed.

Foreign partners or analysts may see Gazprom as 'difficult' to work with, may be critical of the Russian hierarchical business structure, and the limited space for personal incentive. Gazprom, on the other hand, may perceive foreign partners as difficult, for example if foreign employees are reluctant to submit to a system of micro-management.

From a Western point of view, micro-management is probably not a good way of running the partnership, particularly if employees know more than the managers. From Gazprom's point of view, a harder line may have been seen as an appropriate response in a Russian context, a bid to regain respect after a perceived loss of control

after having tried a more ‘Western’ style of management. Asking subordinates for advice could likewise have been seen as inappropriate in a context where the manager is expected to know best. If seen in a Russian context, where being treated as an equal to Western players, or even superior, is important, revealing a lack of knowledge could be perceived as humiliating. While some respondents talk about Gazprom’s sense of superiority, the same attitude could also be interpreted as related to an inferiority complex.

From Gazprom’s perspective, Total’s behaviour in using the media and political pressure to get their way was arguably seen as inappropriate. Total and Statoil’s strong desire to join the project may furthermore have implied that the foreign partners ‘oversold’ their solutions, giving Gazprom grounds to expect more from their partners than they managed to deliver. Regardless whether Gazprom’s expectations were justified or not, and although no respondents have been willing to say so on record, the Russian side may have felt cheated when the project ended up not being commercially viable.

Gazprom’s ‘need for control’, as described by several respondents, could be related to vested interests. Vested interests, prioritizing of personal benefits rather than catering to the needs of the company and society, have strong negative consequences. Once trapped in the system, however, the individual’s motivation to maintain the status quo could rest on a sense of obligation or loyalty rather than greed. One may also here talk about a logic of appropriateness.

Despite the internal challenges of SDAG, the project was not shelved because of Gazprom’s approach, respondents say, but because it could never make a profit. While acknowledging the difficulties, members of the SDAG consortium had learned many lessons after five years of struggle. They had got to know each other and, according to some insiders, built a stronger collaborative foundation than ever. Shtokman could have been developed.

The data provided in this article are insufficient to say how far norms and ideas affected Gazprom’s behaviour in the partnership with Total and Statoil. Yet the data strengthen the case that non-material factors matter and therefore need to be included in the academic discussion. Gazprom operates in an institutional-political context which is different from that of the West, and they see the world through a different lens. Knowledge of each other’s contexts and perspectives is essential for constructive interaction.

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