

# **The Perils and Pitfalls of Business in Russia: Abstract**

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## **ABSTRACT**

It is not for the lack of trying that few Western oil companies have profitable operations in Russia. Quite the contrary. Every oil company with a thirst for opportunity has searched that once-forbidden region for deals. This gold rush was triggered by an apparent crying need for Western know-how and capital, but appearances in Russia often widely differ from reality. Hype of early oil ventures set a false tone of promise, but company and company came home poorer and wiser. The gold rush went bust.

Now in the fourth year of the West's involvement in Russia's oilfields, operators are soberly evaluating their prospects. Even while signals are encouraging the West, like a reduction in export tariffs and some progress on contract law, a remarkable event is occurring that throws out many Western arguments for continuing involvement and investment: On their own, the Russians are arresting their production decline and have increased output.

This will have immediate and long term effects on Westerners. First, it lends credibility to Russian voices demanding that Mother Russia not sign away its precious resources to foreigners. Second, it encourages trade barriers to protect domestic industry. Third, it weakens the bargaining position of Westerners. Fourth, it reduces the options available to Western operators.

What remains will be E&P opportunities where Western technology and capital really can play a role - complex reservoirs, hostile environments - but poor contract terms.

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