



The Department of International Environment and Development Studies, Noragric, is the international gateway for the Norwegian University of Life Sciences (NMBU). Eight departments, associated research institutions and the Norwegian College of Veterinary Medicine in Oslo. Established in 1986, Noragric's contribution to international development lies in the interface between research, education (Bachelor, Master and PhD programmes) and assignments.

The Noragric Master thesis are the final theses submitted by students in order to fulfil the requirements under the Noragric Master programme "International Environmental Studies", "International Development Studies" and "International Relations".

The findings in this thesis do not necessarily reflect the views of Noragric. Extracts from this publication may only be reproduced after prior consultation with the author and on condition that the source is indicated. For rights of reproduction or translation contact Noragric.

© Aleksey Losev, May 2015
alelos2007@rambler.ru

Noragric
Department of International Environment and Development Studies
P.O. Box 5003
N-1432 Ås
Norway
Tel.: +47 64 96 52 00
Fax: +47 64 96 52 01
Internet: <http://www.nmbu.no/noragric>

Declaration

I, Aleksey Losev, declare that this thesis is a result of my research investigations and findings. Sources of information other than my own have been acknowledged and a reference list has been appended. This work has not been previously submitted to any other university for award of any type of academic degree.

Signature.....

Date.....

Acknowledgements

First of all, I would like to thank my main supervisor, Åse Berit Grødeland for solid and valuable support during all planning and writing stages of my thesis including the search of appropriate theoretical literature and informants for my qualitative research. Thank you for always being patient and professional when reading my drafts and giving necessary recommendations for improvements. I would like also to thank my second supervisor Stig Jarle Hansen for help in searching the best suitable main supervisor for this thesis. Thanks to Graham Dyson for helping to find such an interesting theme for this thesis and for helping in organization of two research interviews.

I would like to thank all the informants who participated in this study for sharing their knowledge and experiences that have a great value for the qualitative research made in this thesis.

Finally, thanks to my mam for being encouraging during the writing of this thesis.

Abstract

This thesis studies corruption in an unconventional manner addressing the impact of corruption on Norwegian-Russian relations. In the thesis I pose the following three research questions:

- Does corruption affect relations between countries?
- Does corruption in business affect Norwegian-Russian relations?
- Has the Yara-case affected Russian-Norwegian relations – and in case how?

The impact of corruption on relations between countries more generally and particularly on Norwegian-Russian relations are examined through the prism of reputational theory with an emphasis on state reputation. The thesis also includes a case study – the Yara corruption case in Russia. Eight in-depth interviews conducted in Norway and Russia combined with secondary data are used for this purpose.

The phenomenon of corruption has many shapes and dimensions. Many factors affect states' reputations in the field of corruption and anti-corruption and thus also relations between states. The effects of corruption itself vary a lot from country to country and from case to case. There is therefore a need to study each case separately.

Findings presented in this thesis show that corruption does not pose a threat for, and is far from being a significant problem in current Norwegian-Russian business relations. At present, this is the case due to the structure and character of the Norwegian-Russian cooperation and a number of economic factors. However, corruption affects the development of medium and small-size level business cooperation between the countries.

As for the Yara case, there is little evidence that it has had any significant impact on Norwegian-Russian business relations. Even though the case has negatively affected Yara's reputation, it has not weakened Norway's reputation within Russia. It also seems unlikely that the case has damaged Russia's state and business reputation in the eyes of Norwegian businesses.

Table of content

1.	Introduction.....	1
2.	Conceptual and theoretical framework	4
2.1.	Corruption: definition and historical aspects.....	4
2.2.	Classification of corruption	4
2.3.	Corruption and the global response to it.....	7
2.4.	Reputation: reputational theory and state reputation	8
3.	Corruption and Norwegian-Russian relations.....	10
3.1.	Norwegian-Russian relations: brief overview	10
3.2.	Corruption in Norway and Russia, general tendencies and statistics.....	12
3.3.	Attitudes of Norwegian business to corruption.....	15
3.4.	Anti-corruption measures in Russia	16
3.5.	The Yara case.....	18
3.5.1.	About the company and its business in Russia	18
3.5.2.	The Yara corruption case.....	19
4.	Qualitative research design.....	21
4.1.	Research questions	21
4.2.	Sampling approach.....	21
4.3.	Data collection and analysis	23
5.	Discussion and findings	29
5.1.	Discussion of research question 1: does corruption affect relations between countries?....	29
5.2.	Discussion of research question 2: Does corruption in business affect Norwegian-Russian relations?.....	34
5.3.	Discussion on research question 3: Has the Yara-case affected Norwegian-Russian relations – and in case how?	44
6.	Conclusion	49
7.	References.....	51

1. Introduction

My idea is that if corrupt people are connected to each other representing a power, honest people should only do the same.

Lev Tolstoy

Corruption has been a part of human society since ancient times. In different times and different societies people perceived corruption differently. Today, in the century of economic interdependence which is based on new transport and digital technologies, corruption acquires new greater significance for modern society. Nowadays corruption is understood as a threat for the economy rather than just a phenomenon. Statistics from the World economic forum in 2008 estimates corruption as 5 percent of global GDP - \$2.6 trillion (Graycar and Smith, 2011, pp. 3-4).

Since the 1970s corruption has become an important topic of study in terms of the impact that corruption has on the economy and society. For instance the Organization for Economic Co-operation and Development (OECD) states that “corruption impacts on development outcomes. It undermines accountable and effective institutions, prevents access to basic public services and holds back economic growth”. Moreover the organization underlines that corruption creates obstacles for investments into a corrupt economy (OECD, 2012). A lot of research has been conducted on the corruption phenomenon, however this thesis is studying corruption from an unusual and specific angle namely its impacts on Norwegian-Russian relations.

Norwegian-Russian relations have a long history that goes back to the Vikings times and Kievan Rus'. Today Norway and Russia are neighboring states. This geographical neighborhood forms the basis for the main areas of cooperation for the bilateral relations. Among those areas are business (e.g. Russian-Norwegian Fisheries Commission), politics (e.g. the Arctic Council) and the environment (e.g. the Joint Commission on Environmental protection). Climate change and the melting of the Arctic ice increase the importance of the High North region for both Russia and Norway. Therefore, the significance of the bilateral relations is rising together with the significance of cooperation in the above mentioned areas between the countries in this strategically important region for both countries - the Arctic. It

is therefore important to study factors that have a potential to weaken Russian-Norwegian relations.

As stated in the previous paragraph, corruption represents a threat for the economy of a state, but does it pose a threat to relation between countries in general and Norwegian-Russian relations in particular? The topic of this thesis is whether – and in case how – corruption affects Norwegian-Russian relations. I argue that corruption does not pose a threat for and is far from being a significant problem of the current Norwegian-Russian business relations. This is a case due to the structure and character of the Norwegian-Russian cooperation, and other economic reasons including high market profitability that outweighs the corruption-related risks for Norwegian businesses operating in Russia. However, corruption is to play a more significant role for the development of medium and small-size level of business cooperation between the countries.

In chapter 2 I will present the conceptual and theoretical framework that I will use in the research. At first I will define the term corruption and discuss how this phenomenon may be classified. Brief historical examples of corruption together with modern ways of coping with corrupt activities will contribute to the understanding of the topic. In the thesis I will use reputational theory through which I will explain how corruption impacts relations between countries and particularly Norwegian-Russian business relations. Therefore, section 2.2 will look at the state reputation theory with a view to establishing why state reputation is important and what factors might damage a state's reputation addressing corruption as one of these factors.

Chapter 3 will introduce the actual area within the limits of which I am studying corruption i.e. Norwegian-Russian relations. In section 3.1 I will take a closer look at the bilateral relations and define the main areas of cooperation between the countries. Then in the next section I will examine attitudes and approaches of both states to corruption and what they do to fight the phenomenon. Section 3.3 will consequentially look at a case study which is the corruption case of Yara – the case where Yara bribed top managers of its competitor in Russia.

Investigating this particular corruption case of Yara I will examine how this case has affected the bilateral relations between Russia and Norway. Therefore, I define the main research questions as the following:

RQ 1. Does corruption affect relations between countries?

RQ 2. Does corruption in business affect Norwegian-Russian relations?

RQ 3. Has the Yara-case affected Norwegian-Russian relations – and in case how?

In chapter 4 I will present my qualitative research design. Here at first I will discuss the research questions. Then I will reflect upon my choice of sampling approach for eight in-depth interviews as the central data collection method for my research. Then I will present different types of data I used in the thesis and justify my choice of both primary and secondary data. In the end of the chapter I will also discuss the case study as a data gathering method that helps to narrow down the focus of my research.

In chapter 5 I will present the results of the data collection process, analyzing both primary (interviews) and secondary (statistics, books, articles, mass media sources) data. In the chapter I will start analysis from the general RQ 1: “How does corruption affect relations between countries?” Then I will, consequentially, narrow down the research focus when answering the more specific RQs 2 and 3.

Finally, in the last conclusion chapter I will sum up the discussion of the previous chapters mentioning the main result of my research. In the end of the chapter I will also briefly discuss implication of the thesis’s findings for future research.

2. Conceptual and theoretical framework

2.1. Corruption: definition and historical aspects

First of all it is necessary to define corruption. The word “corruption” has its origins in Latin. The etymology of the word (lat. Co-rruptum) “indicates either an alteration, or an act of seduction, but in any case it leads toward a rupture” (Anti-corruption research network, 2014). This phenomenon is indeed not a new one. Corruption has been present in many cultures and societies since ancient times.

One of the first mentions of “corruption” traces back to the Hellenistic period. Thus, the Greek Governor of Egypt Kleomen used his high position to manipulate seed supply from Egypt to Greece – which in turn dramatically increased the seed price in Greece. In this way Kleomen was able to build an enormous fortune (Kuzovkov, 2010, p.5). Not surprisingly corruption was a topic of discussion for famous Greek philosophers such as Socrates, Plato and Aristotle. The ancient thinkers mostly underlined the importance of law to reduce corruption. However they did not pay enough attention to the manner in which one may differentiate between corrupt and non-corrupt activities. Today, in contrast, the definition of corruption is very significant due to modern laws that define which behavior is legal and which is not (Barcham, Lindess and Larmour, 2012, pp. 28-32).

The definition of corruption as an illegal activity is crucial for understanding which behavior is legal. However in the thesis I address first and foremost the definition of corruption which is made by academic disciplines. In general, corruption can be understood as the “abuse of entrusted authority for illicit gain” (OECD, 2012, p. 16). At the same time the phenomenon is not as easy to understand as its common definition. Corruption has a lot of dimensions and this fact highlights the need to classify corruption. Thus, corruption can be classified by methods (or tools), levels, extent and sector.

2.2. Classification of corruption

Methods:

- Bribery
- Embezzlement

- Extortion

Methods of corruption are essentially the manner in which corruption manifests itself i.e. the ways in which corrupt activity takes place. *Bribery* and “kickbacks” are probably the most common terms that people associate with corruption. Bribery is defined by the Convention on Combating Bribery as “the offering, promising or giving of something in order to influence a public official in the execution of his/her official duties”. Bribes can take different forms such as money, property, advantages, privileges and various benefits (Mitchell, 2009, p 28).

Embezzlement is the theft of assets by a person who has been entrusted with managing these assets. This act is made in order to achieve personal gains. *Extortion* is the act of receiving money or other gains by using different types of threats (ex. actions that can damage property, reputation, life conditions etc.). These three methods of corruption are defined as crimes in the criminal codes of most countries.

Level of corruption:

- Petty
- Grand

Petty corruption is small scale corruption that usually takes the form of small gifts or benefits and personal connections in everyday life. By contrast grand corruption occurs at the high governmental, political or corporate levels and involving large sums of money and and/or substantial benefits.

Corruption by sector

- Public
- Private

Corruption in the public sector is corruption involving government (federal, state, local) officials who abuse entrusted authority for personal gains. It may also include politics, the judiciary or the army. Private corruption involves corporate officials ranging from top managers to sales and purchasing employees. However, the private sector usually interacts

and works with the public one. Corruption (in case of bribery) requires both a payer and a receiver. Thus private companies are often those that pay and the public officials are the receivers. Therefore the public and private sectors are often both involved in corruption cases. At the same time the private sector acquires greater importance today especially in countries with developing and emerging economies. That is why purely commercial bribery is a more familiar feature for private sector i.e. private sector employees are both payers and recipients of a bribe (Rose-Ackerman, 2007, pp. 1-2).

Extent of corruption

- Systemic
- Non-systemic

Systemic corruption is corruption that has a great extent. Such corruption penetrates into every single part of society, ranging from petty to grand corruption and involving several methods of corruption (bribery, embezzlement, extortion, etc.) (Stefes, 2007, pp. 6-7). Non-systemic corruption, on the other hand, is not that well spread and is not common practice for the whole society and for all its levels and sectors. Here corruption is the exception, rather than rule.

The above classification of corruption is important for understanding the case study of my thesis – the Yara corruption case. In terms of method this corruption case is bribery, because Yara bribed two of Phosagro's top managers in order to get a favorable supply contract from the latter. By level the case is a grand corruption because the Yara corruption case occurred at the high corporate level and involved large sum of money. And finally in terms of sector the Yara case is a corruption case in the private sector (Staalesen, 2013). Systemic and non-systemic corruption can be applied to a society rather than to a single company. For instance Norway is a society of non-systemic corruption i.e. corruption is the exception and not a common practice. While the situation with corruption in Russia is much more complicated and far from being at the same level as it is in Norway. However it would be wrong to say that corruption has a systemic character in Russia right now, because the situation is improving and slowly moving in a non-systemic direction.

2.3. Corruption and the global response to it

Nowadays corruption is understood as an economic threat. As mentioned above statistics from the World Economic Forum in 2008 estimates corruption as 5 percent of global GDP i.e. \$2.6 trillion (Graycar and Smith, 2011, pp. 3-4). Thus, the Organization for Economic Co-operation and Development states (OECD) that “corruption impacts on development outcomes. It undermines accountable and effective institutions, prevents access to basic public services and holds back economic growth” (OECD, 2012). Such an effect on economic growth occurs due to fact that corruption creates obstacles for investments.

Corruption is a problem not only for the economy and society of a particular state, but also for the global society. Today in the century of globalized trade and interconnected economies corruption becomes even more of an international problem requiring an international response. Apart from the implementation of some internal legislative measures states have also made joint efforts to fight corruption on the international level. Among the international conventions intended to fight corruption are

- OECD Convention on Combating Bribery of Foreign Public Officials in International business transactions
- The United nations Convention against Corruption (United Nations)
- The Criminal Law Convention on Corruption (Council of Europe)
- The Civil Law Convention on Corruption (Council of Europe)

Obviously, also other anti-corruption conventions and agreements have been signed (e.g. Inter-American Convention against Corruption), but the above mentioned treaties and particularly the OECD convention are the most relevant for studying corruption in Norwegian-Russian relations. Both countries, for instance, have adopted the OECD convention and then implemented it, however in Norway the convention entered into force in 1998, while Russia followed suit only in 2012 (OECD, 2014). I will take a closer look at participation of the countries in the organization in the following chapters.

At present corruption is the target of serious international interest and international organizations such as the World Bank, UN, Council of Europe, International Monetary Fund and the above mentioned Organization for Economic Cooperation and Development. The

convention of the latter has been described by the famous journal “*Foreign Affairs*” as one of the most significant achievements of the international anti-corruption movement (Brademas and Heimann, 1998). Despite some successes in dealing with corruption, corruption is still one of the most prominent problems and it still attracts big amount of interest.

2.4. Reputation: reputational theory and state reputation

When studying corruption and its impacts on bilateral relations, reputational theory is a useful tool. First of all it is important to define the term “reputation”. Reputation may be understood as “a judgment of someone’s character (or disposition) that is then used to predict or explain future behavior” (Mercer, 1996, p.6). But what is this “judgment”? This judgment consists of all the experiences a person (or a state) have had with this character. Therefore I would add the following definition of reputation. Reputation is a result of all experiences that someone had with a character, while the history of all these experiences can help to understand a character and predict its future behavior.

Reputation in this thesis will refer to the reputation of a state. People can hardly imagine our world without international cooperation that allows us to enjoy the “fruits” of international trade, political and economic cooperation. Today in the age of extensive international cooperation “reputation” acquires more and more importance at the international level. Thus, smart states pay significant attention to their image and reputation among other states. (Van Ham, 2001, p.4). Then, a bad state reputation can be an obstacle for foreign investments, competitiveness in the international arena and development of this state.

States try to take care of their reputation especially given that the mass media revolution has made it possible for reputation to cross national borders with astonishing ease. In Belgium, for instance, Prime Minister Guy Verhofstadt has hired a team of image-makers to improve the country’s reputation that was spoiled by corruption at the government level and other unpleasant events (Van Ham, 2001, p.4).

According to traditional reputational theory “states carry a general reputation for cooperativeness that determines their attractiveness as a treaty partner both now and in the future” (Downs and Jones, 2002, p.99). This is the view of neoliberal institutionalists such as

R. Keohane. Put differently state reputation indicates how reliable a state is in terms of complying with its agreements and in terms of maintaining its commitments.

At the same time reputation is not as straight-forward as it appears at first glance. A person may have various reputations for different activities he is involved in. Obviously, states have an even greater number of reputations. Downs and Jones (2002, pp. 95-97), for example, claim that over time states earn many reputations which may be different according to the areas of activities these states are involved in. If we take Russia as an example, the state is usually rather accurate and demonstrates its commitment to comply with valuable energy-related agreements and contracts. Oil and gas have a greater importance for the Russian economy and the state in general, while environmental issues and related obligations are sometimes ignored or at least do not gain sufficient attention from the Russian authorities. Thus, in the next chapters applying this theory of multiple reputations I will examine which of the multiple reputations of Norway and Russia that may be affected by corruption.

Obviously, reputation plays an important role in international relations and international cooperation. Norwegian-Russian relations are not an exception, and the change of reputation may affect the bilateral relations. How does corruption through its influence on state reputation affect Russian-Norwegian relations (applying also a particular case study- Yara)? – this was the core question of my interviews.

3. Corruption and Norwegian-Russian relations

3.1. Norwegian-Russian relations: brief overview

Norwegian-Russian relations span more than a thousand years back in time and trace back to the Vikings times and the Ancient Rus'. Since those times people who lived in geographical areas of modern western Russia and Norway have been building trade, cultural and even military relationships between each other and have never had any wars. This geographical neighborhood defines the main areas of today's cooperation for the bilateral relations as well. Among those areas are business/economics (e.g. Russian-Norwegian Fisheries Commission), politics (e.g. the Arctic Council) and the environment (e.g. the Joint Commission on Environmental protection). Given that corruption is the main theme of the thesis, I will focus primarily on the economic and political sphere of the bilateral relations. However, it is sometimes hard to identify a clear distinguishing line between these spheres as they often overlap. For instance the environmental aspect of the bilateral relations such as the Norwegian-Russian environmental cooperation aimed to reduce pollution from the Norilsk Nickel plant on the Kola Peninsula also covers political and economic aspects including investments from governmental and business actors (Norwegian-Russian environmental cooperation, 2014).

Climate change and the melting of the Arctic ice have increased the importance of the High North for both Russia and Norway. Therefore, the importance of the bilateral relations is rising together with the significance of cooperation between Norway and Russia in the above mentioned area. Moreover modern Russian-Norwegian relations are connected to a great extent to the "High North" region, which is a broader (than the Arctic) concept both geographically and politically and includes not only sea areas but also land stretching from the North of Norway to the Russia's North (Skagestad, 2010, p.6).

Due to its vast opportunities for hydrocarbons and minerals exploration and new efficient shipping routes the High North attracts increased attention. Therefore, Norway demonstrated its interest in the region in 2006 when the Government launched the High North Strategy. The Focus on Russia and doing business in Russia is an important part of this Strategy (Anker 2009 p. 32). Russia also views the High North as an area of new opportunities and

has launched a set of policies aimed at increasing its presence in the region (Security Council, 2008).

High-level political cooperation between Russia and Norway in the High North has been very successful: in 2010 the states signed an agreement that established the maritime borderline between Russia and Norway in the Barents Sea. Most probably the increased importance of the High North helped Norway and Russia reach the agreement and divide disputed sea areas equally between themselves. Thus, the long border dispute was brought to the end opening new opportunities for bilateral relations especially in the areas of industrial fishing, oil and gas. The giant Shtokman gas project, for instance, represents such an opportunity in the oil and gas business area.

As for the economic relations between the two countries Russia is not a very significant trade partner for Norway. However Russia is a vital partner in some sectors of the Norwegian economy such as seafood, metals and fertilizers. Russia is the main market for Norwegian seafood with a value of more than four billion NOK - or 66% of the total Norwegian export to the Russian Federation. Imports from Russia to Norway are also concentrated: metals make up 56% of all such imports. Fertilizers, which is the most relevant product related to the Yara case study, account for less than 10% of the imports from Russia to Norway (Anker, 2009, pp. 33-34). Trade with Russia accounts for only 1.3% of Norway's global trade, but this may be explained by the fact that Norway exports much oil and gas to other countries. However, former Norwegian Minister of Trade and Industry Trond Giske in 2011 stated that, Norwegian businesses consider Russia a market with promising potential for growth, especially in the High North region (Giske, 2011). I will return to the above mentioned economic data in chapter 5.

Bilateral cross-border relations are also an important part of Norwegian-Russian relations. Since 1991 these relations have experienced steadily development, culminating in the signing of an agreement on the local border traffic regime in 2010. The agreement made it possible for residents of the border areas of Norway and Russia to cross the border without visas. Former Norwegian Minister of Foreign Affairs Jonas Gahr Støre remarked "the agreement on a local border traffic regime will significantly simplify travel for border residents, and will thus facilitate increased contact between Norway and Russia" (Government, 2010).

Undoubtedly this agreement was an important step towards even closer cooperation between the neighboring countries in various fields such as tourism, culture and trade. The Barents Observer called the agreement “a treasure trove” for shop owners on the Norwegian side of the boarder. In 2013 Russians spent 130 million NOK increasing retail sales in Sør-Varanger by 20 per cent. The shopping appetite of Norwegians visiting Russia has been estimated at 12.5 million NOK and was expected to rise in the future (Pettersen, 2014). Obviously, the expectations did not take into account the Western sanctions.

In the thesis I will not look in detail at the Ukrainian crisis, its reasons, possible actors involved or discuss their actions. All these things stay out of my main research focus and the crisis began after I had made a decision to study corruption and its impact on the bilateral relations. However, it is necessary to mention that the crisis situation in Ukraine led to significant changes on international arena and also affected Norwegian-Russian relations. Sanctions are among those significant changes which I am interested in. In my thesis I view the sanctions as an important political factor which is extremely relevant factor for the Norwegian-Russian business cooperation.

As a matter of fact, Norwegian-Russian cooperation experienced developments in several directions during last decade. However, the resent situation in Ukraine has proven to be a real obstacle for Norwegian-Russian cooperation. Political and economic sanctions which were imposed by Norway on Russia and then by Russia on Norway have affected this developing cooperation in a very negative way. Even the above mentioned border trade has experienced a decline after the sanctions. Further, the sanctions undermine Norwegian-Russian business and trade cooperation in the High North, the region that could have given a real impetus for the bilateral relation in the future. Among other things the sanctions have hit Russia’s offshore oil and gas projects (dependent on Norwegian offshore technology) and Norway’s seafood export (having Russia as the main trade partner) (Bergo, 2014). Thus, the situation on the international arena and political will are harming business cooperation that has been built during decades by Norwegian and Russian businesses.

3.2. Corruption in Norway and Russia, general tendencies and statistics

In spite of the success in the political sphere there are some obstacles in the economic sphere for investors in Russia such as “lack of transparent and efficient bureaucratic procedures,

problems with finding a reliable Russian partner, tax regime and corruption” (Anker, 2009, p. 36). Anker gathered the data in 2007 and 2008 by conducting interviews among Norwegian company representatives. In addition he cited some statistical data such as the “ease of going business”, where Russia was ranked 120th out of 183 countries in 2010, and Transparency International’s Corruption Perception Index (CPI) where Russia is ranked 147th out of 180 countries in 2008. Has anything changed since then? Six years is a very long time. In order to answer this question I will compare statistics for 2008 and 2010 with available statistics for 2014 and 2015.

Transparency International’s CPI for 2014 ranks Russia 136th out of 175 countries (Corruption by country, 2014). This is a positive change but in general this change cannot be seen as a significant one at least in comparison with the progress of Russia in the “ease of doing business”. The ease of doing business ranking for 2014 ranks Russia 62th out of 189 countries, indicating that the country is steadily improving its ranking. By contrast, Norway in TI’s CPI is ranked 5th out of 175 countries and 5th out of 189 countries in the “ease of doing business” ranking. In previous years Norway was rather stable: in both rankings it was among the top 10 (World Bank, 2014).

Referring back to the previous paragraphs corruption Anker (2009, p.36) views corruption as one of the main obstacles for Norwegian investments in Russia and Norwegian companies are “in general reluctant to go to Russia with capital”. However, it is not difficult to challenge his statement about the role of corruption in the investment policy. In order to do so it is worth to take a closer look at the investment policies of Russia and Norway toward each other. Having much in common with Norwegian-Russian trade, Norwegian investments in Russia are also very much concentrated. Thus Norwegian businesses mostly invest in oil and gas industry, mining and fertilizer companies in Russia. Phosagro is one the latter. Two managers of this company were bribed by Yara (This is my case study, so I will take a look at it in detail in section 3.3).

Russian investments in Norway are more than ten times lower than the Norwegian ones in Russia. Moreover, leading Russian companies did not consider investing in Norway due to the limited domestic market and high tax rate. However, three years ago Russian oil giants

Rosneft and Lukoil started investing in Norway and opened their offices in Oslo (Ministry of Economic Development, 2013).

If corruption in Russia is reviewed as one of the main obstacles for Norwegian investments in Russia, why does Norway invest much more in Russia than the relatively corrupt Russia invests in Norway which has one of the lowest levels of corruption according to Transparency International's CPI? Following this corruption-related logic the real situation should be the opposite: Russia should invest more in Norway than Norway should invest in Russia. Obviously corruption is far from being the main obstacle for investments. There are a lot of other factors that influence companies' decisions whether to invest or not to invest in a country. Thus, Russia with its high potential for growth attracts significant attention of Norwegian capital despite the fact that Russia is perceived as a country with a relatively high level of corruption.

It is possible to see the same tendency when looking at China and Russia. Both countries are located at the bottom of Transparency International's Bribe Payers Index (BPI). The BPI "ranks 28 of the world's largest economies according to the perceived likelihood of companies from these countries to pay bribes abroad" (Transparency International, 2011). Companies from these countries have the highest perceived likelihood of paying bribes abroad. Even though Norway is not included in the report, a very interesting tendency can be observed: the countries with the fastest growing economies and developing countries such as Russia and China tend to be located at the bottom the ranking. It is obvious that such a high level of perceived corruption in the developing countries does not mean that they lack direct and indirect investments from other countries including developed ones.

At the same time Transparency International's statistical indices such as the CPI contain some weaknesses that have been criticized. Alex Cobham (2013), fellow of the Centre for Global Development, in *Foreign Policy* states that the first problem with the CPI can be found in its name – "perception": "perceptions are not facts, and in this case they may be an unhelpfully distorted reflection of the truth" (Cobham, 2013). Further, the CPI is based on the perceptions of a fairly small group of elite business people. Another weakness is that the publically reported CPI may easily create an even wider perception of a country being corrupt which might in turn affect that state's reputation. So if understanding reputation as "a

judgment of someone's character (or disposition) that is then used to predict or explain future behavior" (Mercer, 1996, p.6), much broader number of people may base their judgments of a state on the CPI. Consequently, the CPI may cause reputational loss for a state listed in the CPI as corrupt and may as a consequence also result in financial losses for this state. In general the CPI does not provide evidence of actual corruption and that is why experts criticize using the CPI as a reliable tool for a state or a company in making important business decisions (Cobham, 2013). I will therefore use the CPI with caution in my research.

Transparency International's other index is the Bribe Payers Index (BPI). The BPI asks around 3000 business executives about their views on the extent to which companies from 28 leading economies engage in bribery when operating abroad (Transparency International, 2011). The BPI shows that businesses from the world's leading countries including the developed ones are perceived as payers of bribes when doing business abroad. In 2011 Russia and China were ranked the lowest in the BPI. However, the difference in score between the BPI countries was not very high. This means that none of these countries has relatively clean business sector. But it should be noted that even though the BPI is more specific than the CPI it is also based on experts' perceptions, but not on the evidence of bribery (Provost, 2011).

3.3. Attitudes of Norwegian business to corruption

Referring back to TI's CPI for last several years Norway is perceived as one of the least corrupt countries in the world. Yet the situation in Norwegian business which operates abroad is somewhat different. Tina Søreide's (2004) research (Corruption in international business transactions: The perspective of Norwegian firms) shows that in spite of the fact that the majority of Norwegian firms operating abroad claim that corruption is not acceptable at all, most of them keep silence if their competitors pay bribes. Corruption is understood by many Norwegian firms as "part of the game" and they would rather "adjust their practices to local business culture if losing contracts due to corruption" (Søreide, 2004, p.40). The main driver of corruption here is the fact that Norwegian companies are worried about having competitors paying bribes and winning valuable contracts. This, for instance, could be the reason why Yara bribed two Phosagro's managers. I will return to Yara case in detail in the next section (3.4).

The other interesting tendency found by Tina Søreide (2004) was that only 5% of Norwegian firms preferred to retreat from a country where they have experienced corruption in general or have lost contracts due to corruption. However corruption and other difficulties of the local business climate are the reasons why one third of Norwegian firms decide not to penetrate into a new market (Søreide, 2004, p.40). Thus, corruption rarely pushes Norwegian businesses away from a market. At the same time, the local business climate, which may include not only corruption level but also inefficient bureaucratic procedures and tax regimes, plays a much more important role in preventing Norwegian businesses coming into a new market. The Søreide's report (2004) investigates attitudes of Norwegian businesses to corruption when operating abroad; therefore, the report's result may also apply to Norwegian-Russian business cooperation and particularly to Norwegian businesses operating in Russia.

Civil society - including NGOs and INGOs - can play an important role in fighting corruption. TI is a vivid example of such an INGO. The Norwegian branch of TI obviously contributes to the Norwegian anti-corruption culture by giving useful recommendations to public officials and businesses. For instance TI Norway states that even though many Norwegian companies have already developed their standards and guidelines in relation to corporate governance, very few of them address the corruption phenomenon specifically. That is why TI Norway has elaborated the Business Principles for Countering Bribery (BPCB) aiming to help Norwegian companies to develop and strengthen their own anti-corruption programs (Halvorsen, 2014).

3.4. Anti-corruption measures in Russia

As mentioned in the previous sections Russia improved its ranking in the "Ease of doing Business" index from 120th in 2009 to 62nd in 2015. This indicates that the business climate in Russia is getting better. For instance, according to the statistics the following aspects are improving in Russia: starting a business, registering property, and enforcing contracts (World Bank, 2014). When it comes to anti-corruption measures and legislation Russia has also made some progress. Thus, the latest amendment of the Russian Federal Anti-Corruption Law has strengthened the legal basis of fighting corruption in Russia. The amendment affects both the public and private as it targets corruption in both sectors.

According to the new law firms and organizations are obliged to introduce measures to prevent corruption. Amongst these new measures are:

- assigning divisions or employees who are responsible for compliance with the anti-corruption legislation;
- building anti-corruption corporate ethics and conducting anti-corruption trainings.

In the public sector the law obliges public servants to declare their income, property and sources of their funds. Additionally the legislation prohibits facilitation payments to state officials.

Obviously, the above mentioned law was not the first in Russia's anti-corruption efforts. Previously Federal Law №44 came into force targeting corruption in the field of state procurement. According to this law all public servants are not only obliged to place all procurement orders and contracts at the governmental web-site with public access (zakupki.gov.ru) as was the issue earlier, but they are also obliged to publish details of the implementation of these contracts (Open state procurement, 2013). Moreover the public servants have to justify their procurements and prove that they really need the goods and services that they purchase. The law also implements the Unified Information System (Edinaya Infomatsionnaya Sistema). This system has public access through the internet while integrating and storing the detailed information about state procurement (Open state procurement, 2013). This detailed information includes plans of procurement, contracts info and the progress of implementation. The most important thing here is the principle of inevitability. The principle means that the information about "each procurement contract and its implementation is stored and checked inevitably in one, two or more years", says Russian Deputy Minister of Economic Development, Evgeniy Elin in the interview for the Channel One Russia (Evstigneev, 2015). As in Norway, civil society and NGO's should and can play an important role in fighting corruption in Russia too. For instance the internet project called "For honest procurement" (Za chestnye zakupky) has already made a significant contribution to transparency and honesty of state procurement. This website gives an opportunity to NGOs and ordinary people to search and highlight suspicious procurements that they face. The public complains are therefore checked by lawyers and relevant experts on corruption. In addition the website provides educational information for the public about corruption. As a result the project together with the joint public efforts helped to prevent embezzlement

during state procurement estimated 3 billion RUB (around 60 million USD). In April 2015 a lot of corruption cases were brought up to the court. The Governor of Sakhalin, for instance, got caught and charged with corruption following a warning sent from the civil society (Evstigneev, 2015).

Even though civil society projects like “For honest procurement” target first and foremost corruption in public sector, it is hard to underestimate the significance of transparency that such projects develop. Undoubtedly, high level of transparency empowers the civil society to act more freely and democratically against corruption in general, not only in the public sector, but also in the private one. These two sectors are often connected and involved together in the same corrupt activities. A certain level of transparency and anti-corruption culture that the civil society projects such as the above mentioned give more opportunities for honest companies including Norwegian ones to complain about any corruption activity they experience when doing business in Russia.

In general a lot of work has been done in Russia to combat corruption during the last five years. The GRECO (Group of States against Corruption) Secretariat of Council of Europe in its report highlights Russia’s requisite will to implement necessary measures to combat corruption (GRECO, 2013). Consequently, since 2011 Russia has experienced a significant increase in the number of corruption cases. However, there are still some obvious problems to be solved, for instance anti-corruption legislation lacks an effective enforcement mechanism (GRECO, 2013). This suggests a need for a number of further legislative reforms.

3.5. The Yara case

3.5.1. About the company and its business in Russia

Yara is a well-known Norwegian company which was founded in 1905 as Norsk Hydro. Today the company has presence in 50 and sales in 150 countries. Fertilizers are the main part of Yara’s business. Additionally, the company delivers industrial products and solutions that aim to reduce emissions and minimize the impact on the environment (Yara International, 2014). Under the name “Yara” company was registered in Russia in 2008. However, Yara actually entered the Russian market earlier - in 1990 - when the company’s

name was Norsk Hydro. In Russia Yara works as a supplier of a wide range of fertilizers and a complete crops growing technology (Yara in Russia, 2014). Obviously, Yara has more than 20 years' experience of operating in Russia and the company is aware of all peculiarities and features of the Russian market. At the same time, this long experience did not prevent the company's involvement in corruption in Russia.

3.5.2. The Yara corruption case

The Yara's corruption case is directly connected to the Russian fertilizer company - Phosagro. The latter is also among the world's leading producers of phosphate fertilizers. Phosagro is both Yara's partner (supplier) and one of the competitors in the Russian market. The corruption case itself emerged out of a deal between Yara and Phosagro, according to which Yara sold its stake in Apatit (mining and fertilizers production factory in Russia) to Phosagro. The deal was a prerequisite for providing Yara with a 5-year profitable supply contract where Phosagro was a supplier. Thus, Phosagro increased its control over the Apatit factory, while Yara received the desirable exclusive supply contract. To facilitate the deal Yara bribed two of Phosagro's top managers (Staalesen, 2013).

Phosagro is usually described as an aggressive market player that widely applies various strategies including corporate wars to take over its competitors. Thus, according to *the Moscow Post*, Phosagro with the help of Yara's ex-top manager Sven Obmudstvendt made Yara sell its shares in the Nordic Rus Holding, which owns 10% of Apatit – one of the biggest fertilizer producing factories in the world (Svetlov, 2013). Obviously, Yara has experienced severe competition in Russia. Tina Søreide's (2004, pp.40-41) research results (described in the previous section) shows also that Norwegian companies operating abroad are more exposed to corruption in markets with a high degree of competition. Therefore, the market disposition that Yara faced especially in relation to Phosagro may be one of the factors that pushed Yara into bribing its partner and competitor.

The Norwegian National Authority for the Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) had already charged Yara with corrupt activity in Libya and India when the corruption case in Russia surfaced. Moreover, Yara has already accepted a record fine of 259 million NOK for engaging in corruption in these three countries, while four top managers of Yara have been charged with corruption and are currently on trial

(Hustadnes, 2014). Judging by the sector where the corruption case took place, it is obviously corruption in the private sector. At the same time Yara is also a state owned company which is why the corruption case relates also to the public sector and the state.

The Yara corruption case was covered differently by Norwegian and Russia media outlets. In Norway leading mass media such as *Dagens Næringsliv* and *NRK* focused mostly on Yara's corruption cases in Libya and India while more rarely referring to the case in Russia.

Moreover, the Yara corruption case receives no mention by the leading Russian media. I will return to this issue in chapter 5.

4. Qualitative research design

4.1. Research questions

Research questions are one of the main elements of any qualitative or quantitative research. Choosing appropriate research questions is a very important methodological step in this qualitative research. Moreover, the research questions help frame the research focus of this thesis and make it more specific. The following three questions are the RQs addressed in this thesis:

- RQ 1. Does corruption affect relations between countries?
- RQ 2. Does corruption in business affect Norwegian-Russian relations?
- RQ 3. Has the Yara-case affected Norwegian-Russian relations – and in case how?

The sequence of the discussion chapter (chapter 5) is made in the following order: from general to specific. Thus the first research question is the most general and aims to find out possible effects of corruption on relations between countries in general and to build the basis for further discussion concerning more specific research questions 2 and 3. The second research question narrows down the research focus to Norwegian-Russian business cooperation. The third question is even more specific and studies one case – the Yara corruption case in Russia. As I have already mentioned in section 2.4 (Reputational theory), I will examine the effect of corruption on relations between countries and particularly on Norwegian-Russian relations through its effect on state reputation. In other words I will apply the state reputation theory to study the impact corruption has on Norwegian-Russian cooperation.

4.2. Sampling approach

I have applied the following criteria to the sampling for the interview: four interviews with Norwegian nationals and four interviews with Russian nationals. The first four interviewees are the Russian nationals, the other four are the Norwegian nationals (see table 1). Such a division allows for an equal representation of thoughts and experiences. At the same time, nationality was not the main criteria for the interview sampling. The most important criteria was the knowledge of the interviewees. Thus, all the interviewees are either experts on

corruption or possess long experience from the area of Norwegian-Russian business cooperation. The following table provides general information about my interviews.

Table 1. Interviews

Interview number	Name	Institution and position	Date
1	Vladimir Bagreev	Head of Norwegian-Russian Chamber of Commerce in Russia (Moscow)	07.08.2014
2	Natalya Isaeva	Kvaerner compliance manager (Moscow)	13.01.2015
3	Anton Pominov	Head of TI Russia (Moscow)	02.08.2014
4	A representative	the Russian Trade Mission in Oslo	02.03.2015
5	A representative	the Norwegian Embassy in Moscow	06.08.2014
6	Graham Dyson	procurement and contract manager, Kvaerner (Oslo)	20.02.2015
7	Gro Skaaren-Fystro	special adviser of TI Norway (Oslo)	17.04.2015
8	Esben Tuman	Vice President Communications, Yara International (Oslo)	12.04.2015

For collecting reliable data, I decided to interview three categories of people. The first category is representatives of Norwegian-Russian business. There are four interviewees in this category: two Kvaerner’s managers (one in Oslo, one in Moscow) and one from Yara International. The fourth interviewee is a representative of Norwegian-Russian Chamber of Commerce (NRCC). Even though Vladimir is not a businessman, he has 20-years’ broad and

valuable experience from Norwegian-Russian business relations and has made a substantial contribution to the building and development of bilateral business cooperation.

The second category of interviewees consists of people who represent the governments of Norway and Russia and, thus, the official interests of both states. As such they contributed to my research by sharing the official position of Norway and Russia respectively during the interviews. One interviewee works at the Norwegian Embassy in Moscow and the other represents the Russian trade mission, which is a part of the Russian diplomatic mission representing the economic interests of Russia in Norway.

The third category of interviewees consists of representatives of TI in Norway and Russia. TI's point of view is also valuable for my research, as the INGO is usually very critical towards corruption. At the same time TI staff has information about the main tendencies and challenges related to corruption issues in Norway and Russia.

Obviously, for these eight in-depth qualitative interviews I used the non-probability sampling technique. As regards the choice of units I applied purposive sampling i.e. I have chosen exactly these interviewees due to their extensive knowledge and experiences on issues relevant to my research.

4.3. Data collection and analysis

In order to make my research more accurate and reliable I applied so-called triangulation research methodology. Triangulation is a combination of multiple data collection methods or a technique that implies assessment of the research topic from several angles (Berg, 2001).

Thus, I used the following data collection methods:

- Primary data: in-depth qualitative interviews with experts on corruption issues and Norwegian-Russian relations (four interviews in Russia and four interviews in Norway)
- Secondary data:
 - research made by Tina Søreide (2004), Morten Anker (2009);
 - different statistical data from Transparency International (the CPI and BPI), the World bank (“Ease of doing business” index), the United Nations,

- Governmental resources (from websites of the Norwegian Government and the Finance Ministry of Russia);
- an analysis of media sources is an essential part of my research because I apply state reputation theory which is connected to the way how leading mass media of Norway and Russia covers corruption-related topics (first and foremost the Yara case);
 - an analysis of previous research that investigated corruption in the inter-state setting (Mauro, 1995; Svensson, 2005) and its correlation with economic growth and foreign investments (Huntington, 1968; Leff, 1964; Houston, 2007);
- A case study of the Yara corruption case in Russia is a qualitative research design that implies in my case collection and analysis of both the primary and secondary data.

Primary data

I use the “interview” as the major method of collecting qualitative data. According to Berg (2001, p.66) the process of interviewing can be described as “some sort of face-to-face interaction”, which is a good way in which to explore the perceptions, worldviews and experiences of interviewees. The experiences of my interviewees are exactly what I need to access in order to answer my research questions. Face-to-face interaction in the form of an interview allows my interviewees to share their knowledge about the corruption phenomenon and Norwegian-Russian relations. Additionally, qualitative interviews are flexible and conversation-like, thus making it easier to receive the information through the interviewee’s body language and other non-verbal clues. Body language and generally non-verbal communication are also useful to assess the quality of the information provided by the interviewees. This is important as corruption may be a sensitive topic to discuss.

In order to give some flexibility to the interviews I decided to structure them in the semi-structured or semi-standardized way. The semi-structured interview has a number of predetermined questions, but at the same time it allows both the interviewees and interviewers to go beyond the answers to the planned questions (Berg, 2001, p.66). Moreover, interviewers may change the sequence of questions and act according to the way

in which the conversation goes. Applying this technique made it easier for me to conduct my interviews that have several open questions expecting extended answers. As already mentioned, my interviewees are divided into three categories. Thus, the semi-structured interview allowed me to adjust the interview questions according to the given interviewee category.

My first question (see the list of question below), for instance, was adjusted and changed to reflect the area the interviewee working in. These areas are anti-corruption, Norwegian-Russian relations or Norwegian-Russian business cooperation. Some questions could then be omitted due to their irrelevance for a particular interview (e.g. question 6 in the interview with the Yara representative). The follow-up “why?” questions allowed me to explore the informants’ attitudes and perceptions even more in-depth and helped me to look at questions from different perspectives.

The list of questions that I used for my in-depth research interviews:

1. How long have you been working in anti-corruption/Norwegian-Russian business/relations? What are the major similarities and differences in Norwegian and Russian business cultures?
2. What are the major obstacles for Norwegian business operating in Russia?
3. Do you think corruption is one of them? If this is the case, why?
4. Do you remember the latest or the most famous corruption cases that has taken place in Russia?
5. Have you heard about any international or Norwegian companies that were accused of corruption in Russia?
6. Have you heard about the Yara corruption case?
7. Do you think that the Yara case will damage the reputation of Norway in the eyes of Russian business? Or perhaps it has already damaged Norway's reputation in the eyes of Russian business?
8. Do you think corruption affects Russian-Norwegian relations? Why? Why not?

The “case study” as a data gathering method also occupies an important place in my research. There are a lot of definitions of the case-based research method, but specifically for

my thesis the following definition made by Robert Yin is the most suitable one. Yin defines the case study as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context” (Yin, 2002, p. 13). In my point of view, corruption is such a phenomenon, whereas the Yara corruption case in Russia provides the real-life context. The case study on the Yara corruption incident helped to make my thesis more specific and in-depth oriented when studying corruption and its implications for Norwegian-Russian relations. Focusing on the Yara case, my case study uses interviews as a data collection technique i.e. questions six and seven about the Yara case were included in the list of the interview questions. Question five aims to examine whether the interviewees are aware of the case or not.

One interview was conducted with a Yara representative. It is important to get a primary data from the company which the case study is based on. There were fewer questions in this interview simply because there was no need to ask the Yara representative if he heard about the case. The rest of the questions asked during the interview were the same as for the other interviews. Additionally, the interview aimed to receive first-hand information about the Yara corruption case and what Yara itself thought about the possible impact the corruption case may have had on Norwegian-Russian business cooperation and Norwegian relations more generally.

A question of confidentiality was included in all my interviews: I asked all the interviewees if I could use their names and cite their answers in the thesis. All the interviewees were interested in if my thesis will be published. Two of them, the representatives of the Norwegian Embassy in Russia and the Russian Trade Mission in Norway asked me not to mention their names in my work. Therefore, I refer to them in the thesis only as “the Norwegian Embassy representative” and “the Russian Trade Missions representative”. Corruption is a sensitive topic and the two interviewees might therefore be worried about their words being interpreted in the wrong way.

As for the manner in which the interviews were conducted most of them (6 out of 8) were face-to-face, one was conducted by Skype video calling due to the preference of the interviewee from the TI Russia. One interview (with the Yara representative) was conducted by Skype, but without video, even though the conversation had been agreed in the form of

video calling. The reason for this, as explained by the interviewee, was the absence of the web camera on his mobile phone. The phone speech quality was good but no visual cues were available for assessing the quality of this response.

All interviews were recorded with my phone-dictaphone and some relevant software installed on my laptop. The interviewees were asked if I could record the interviews. Re-listening to the interviews helped refresh my memory by going back to the original data source as often as needed during the analysis. This also allowed me to refer to the interviewee as accurately as possible.

A possible limitation of the interview as a data collection method is that the interviewees might not always tell the truth. They may say one thing while actually thinking or acting in a different or even opposite way. That is why I cross-checked data from one interview with the other interviews and the other data collection methods.

Secondary data

Apart from the above mentioned primary data, I also used second hand data such as Tina Søreide's report - *Corruption in international business transactions: The perspective for Norwegian firms* (2004), and Morten Anker's - *the High North and Russo-Norwegian bilateral economic relations* (2009). The former investigates the attitudes of Norwegian businesses operating abroad towards corruption and the manner in which corruption actually influences the decisions of Norwegian firms. These data are not directly connected to Norwegian-Russian business relations. However Søreide's research results are relevant for my research as well. Anker's (2009) paper provides me both with some valuable statistics (e.g. the composition of Norwegian-Russian trade) and an interesting overview of the possible obstacles for Norwegian-Russia business cooperation. Corruption, as he argues, is one of the main obstacles.

Transparency International's Corruption Perception Index (CPI) and Bribe Payers Index (BPI) are also very useful for my research. Even though, as mentioned above in chapter 3, the CPI and the BPI are sometimes criticized by scholars, I use the data of these indices to create general overview about the perceived level of corruption in Norway and Russia. The

CPI and BPI are useful also due to the fact that the indices are based on perceptions and as these perceptions are very much connected to the international reputation of states. For instance - and as mentioned earlier - the rankings may affect state reputation by enhancing, maintaining or weakening it.

Additionally, I use some second-hand statistical data such as “the Ease of doing business” index compiled by the World Bank Group. These data help understand the main challenges and advantages of doing business in different states more generally and in Russia and Norway in particular. It is hard to underestimate the importance of such data in terms of revealing other significant factors that in addition to corruption may influence Norwegian companies’ business decisions in Russia and thus also Norwegian-Russian business cooperation.

My analysis of the mass media also has an important role in the thesis. In the modern era of vast and unlimited flows of information, the mass media may significantly influence the manner in which people perceive different states and thus also affect state reputation. This type of analysis also has a great value for studying the Yara corruption case, which was covered differently by domestic mass media outlets in Norway and Russia.

In order to analyze the possible effect of corruption on relations between states and particularly Norwegian-Russian relations I will approach the issue from different angles. I therefore analyze different approaches to corruption and its effects on important economic factors such as economic growth and foreign investments. These factors in turn also affect international business relations. The following scholars have since the 1960s Leff (1964), Huntington (1968), and Houston (2007) mentioned some positive effects that corruption may have on economic growth. Other scholars, such as Mohsin Habib and Leon Zurawicki (2002), provide examples of states where corruption has not deterred foreign investments. Yet others, such as Svensson (2005), study corruption in inter-state settings and note that it very hard to find any direct link between corruption and these economic factors (economic growth and foreign investments).

5. Discussion and findings

This chapter is divided into three main parts according to the research questions set out in chapter 1:

- RQ 1. Does corruption affect relations between countries?
- RQ 2. Does corruption in business affect Norwegian-Russian relations?
- RQ 3. Has the Yara-case affected Russian-Norwegian relations – and in case how?

5.1. Discussion of research question 1: does corruption affect relations between countries?

Today corruption is viewed as a problem not only for the economy and society of a state, it is also an important global issue. When looking at a single state “corruption impacts on development outcomes, undermines accountable and effective institutions, prevents access to basic public services and holds back economic growth” (OECD, 2012). At the same time it is hard to consider the economy of a state without any connection to the other states’ economies - especially having in mind that we live in the century of globalized trade and economic interdependency. Therefore, the more states are interconnected, the more a problem of one states becomes a common problem for the whole community. Thus, according to the OECD, corruption hampers international cooperation in many fields, for instance by creating certain obstacles for investments into corrupt economies (OECD, 2012).

The global corruption-related challenges require taking joint international efforts. The extent to which states participate in and follow international anti-corruption conventions may also affect relations between states as it affects state reputation. As noted in section 2.4 reputational theory is a useful tool for studying the impact of corruption on relations between countries. The history of the experiences that a state has with other states forms their reputation which helps understand them and predict their future behavior. Thus, smart states pay significant attention to their image and reputation among other states, companies and consumers especially in the age of limitless international business cooperation (Van Ham, 2001). Then according to the traditional reputational theory “states carry a general reputation for cooperativeness that determines their attractiveness as a treaty partner both now and in the future” (Downs and Jones, 2002, p.99). In this setting it is important to know the extent to which states cooperate with each other in the international fight against corruption.

Therefore, participation of states in the following (mentioned in chapter 2) international conventions may play a significant role for international reputation of these states:

- OECD Convention on Combating Bribery of Foreign Public Officials in International business transactions
- United nations Convention against Corruption
- Criminal Law Convention on Corruption (Council of Europe)
- Civil Law Convention on Corruption (Council of Europe)
- GRECO (Council of Europe)

GRECO – the Group of States against corruption – is a body established by the Council of Europe that monitors member-states’ compliance with the organization’s anti-corruption standards. Additionally, GRECO is an agreement according to which member states allow GRECO to evaluate the anti-corruption standards in their countries in relation to the Council of Europe’s Criminal and Civil Law Conventions on Corruption. This means that the signatories of these two conventions automatically join GRECO and its monitoring procedures (GRECO, 2014). As members of GRECO, states demonstrate their openness and readiness to cooperate. In order to analyze and compare participation of Norway and Russian in the anti-corruption conventions and I have made the following table:

Table 2. Conventions signed by Norway and Russia

	Norway Entry into force (year)	Russian Federation Entry into force (year)
OECD Convention on Combating Bribery	1999	2012
Criminal Law Convention on Corruption	2004	2007
Civil Law Convention on Corruption	2008	--
United nations Convention against Corruption	2006	2006
GRECO membership	2001	2007

Sources: (OECD, 2014), (Criminal Law Convention, 2015), (Civil Law Convention, 2015), (UNODC, 2015), (GRECO, 2015)

As shown in table 2, Norway is a party of all these international conventions. Russia has signed and adopted all of them except the Civil Law Convention, which is also an important part of international anti-corruption efforts. This fact obviously does not contribute positively to Russia's reputation in the field of anti-corruption. Secondly, Russia joined most of the conventions later than Norway did. This means that Russia has had less time to develop effective anti-corruption mechanisms corresponding to the conventions. At the same time, Russia has demonstrated its openness to international monitoring missions such as those of GRECO, which is also to monitor GRECO member-states' compliance with the Council of Europe's anti-corruption standards. In its 2013 report GRECO mentions Russia's requisite will to implement the necessary measures fighting corruption (GRECO, 2013). GRECO's assessment may have some positive impact on Russia's reputation in the sense that Russia accepts the common international rules concerning anti-corruption measures.

By contrast, a state that does not sign important international anti-corruption conventions may be perceived as a non-reliable partner or a state that does not pay any significant attention to cooperation in the anti-corruption sphere. Therefore, if this state declines to join a convention, this decision is likely to negatively affect its reputation. Yet if a state formally adopts and implements the anti-corruption conventions, this does not necessarily mean that its reputation will automatically improve. The latter will depend on how seriously the given state follows and enforces them. Sometimes states adopt the anti-corruption conventions but fail to implement some of their articles – for instance because of conflicts between the convention's articles and national legislation. Moreover, even though some states do not sign some anti-corruption conventions, they may be perceived as less or equally corrupt as those states that have ratified and are in the process of implementing the conventions. To give an example Russia has joined the OECD Anti-bribery Convention, whereas China and India have not. However China was ranked almost equally with Russia in the CPI and the BPI, whereas India was ranked noticeably better in both rankings than Russia (Transparency International, 2011).

The other thing that is important to mention is the role of rankings such as the TI's CPI or the World Bank's "Ease of doing business" index. These important international rankings

can either maintain and enhance state reputation or they can damage and worsen it. Thus, a negative ranking in the CPI (or other corruption-related indices), which is publically reported, creates an even wider perception of a state as corrupt. This can easily lead to reputational damages for this state. In the opposite case, a positive ranking can maintain state reputation related to corruption. I will return to such reputational effects of the corruption rankings on Russia's reputation in the next section.

Undoubtedly, corruption may damage the reputation of a state and there are a lot of examples to this effect. As mentioned in section 2.4, Belgium is a vivid example of how several corruption scandals impact on a state's reputation and how seriously the state responded to this problem in order to improve its reputation. Russia's reputation was very much harmed during the challenging 1990s, however not much was done to improve Russia's reputation concerning perceived corruption-related risks during the 20 years following the collapse of the Soviet Union. According to Greg Simons (2013) from the Swedish Institute of International Affairs there is a need to rehabilitate Russia's reputation and the brand image, which is difficult to achieve because Russian brands are not so common in the international consumer markets.

As Simons (2013) notes Russia lacks co-called "soft power" i.e. the ability to establish closer relations and better communication patterns with foreign publics. There were, for instance, no media outlets that could represent Russia abroad and communicate with the foreign public in the manner in which media outlets from many other states do it (e.g. BBC, CNN, Euronews). Thus, the first attempt to improve Russia's reputation by applying the soft power strategy was not made until 2005, when the first media outlet broadcasting abroad— *Russia Today* (RT) was established. It has since become a multilingual media resource broadcasting in English, Spanish and Arabic. However, as Simons (2013) states the soft power approach works very slowly and its results may not be seen until sometime in the future.

However, as Downs and Jones (2002) note, states and companies earn not one single but several reputations. These reputations may vary according to specific areas that the states are involved in. Thus, a state being accurate and reliable in one field (which is normally the field most important for it) possesses a good reputation there, while in other fields the state may, on the contrary, have a negative reputation.

When studying corruption from the angle of relations between states it is wise to include two relevant corruption instances into the discussion:

- Corruption in one country (A)
- Corruption in one country (A) involving the nationals of a foreign state (state B)

In the first case reputational damage may occur due to corruption in country A. Such corruption may weaken the reputation of country A in the eyes of country B. In the second case both states may suffer reputational damage because country A is, first and foremost, the place where this corruption case happens and usually nationals of country A are also involved in corruption together with the nationals of country B. These two corruption instances will be discussed in greater length in the discussion of RQs 2 and 3.

The most significant reputational damage due to corruption may occur if a company does not have any anti-corruption policies or does not take necessary anti-corruption measures. It is obvious that such a company is irresponsible and therefore does nothing to minimize corruption-related reputational risks. A company that on the surface implements anti-corruption policies, whilst at the same time engaging in corruption, is another case to keep in mind. In both cases, the reputational and also the financial losses may be very high.

Simultaneously corruption-related reputation risks may also be addressed differently. According to Bonime-Blanc (2015), companies may even turn corruption incidents into a reputation building opportunity. Companies such as Morgan Stanley and Ralph Lauren are real-life examples in this regard. They investigated their corruption incidents internally and voluntarily provided their governments with the results of the investigation. Both companies have proper anti-corruption programs to investigate and report corrupt activity. Thus, they demonstrated that they were ready to take corruption risks seriously and deal responsibly with them. The companies therefore succeeded in protecting and even enhancing their corporate reputation.

This way of enhancing reputation is also applicable to states. If a state has a robust anti-corruption culture, responsible anti-corruption legislation and workable enforcement mechanisms, and corruption cases are properly investigated and punished, this may also

improve and/or protect the state reputation as it was in the above mentioned case of the companies' reputation. At the same time, there are a lot of other factors that can undermine the state reputation even if the state acts in the way described above. For example, a great number of corruption cases and their broad media coverage may, on the contrary, have a negative effect on the state reputation even though a great number of investigated cases may suggest that the state is actually fighting corruption.

Taking into consideration all the factors mentioned above it makes sense to state that participation of states in international anti-corruption conventions promotes an anti-corruption culture globally and helps coordinate international anti-corruption efforts. Therefore, states' participation in the above mentioned conventions positively affects these states' reputation, the corruption climate within the country, and strengthens relations between countries. However, if states do not adopt some of these important conventions, this does not necessarily mean that they are perceived as more corrupt than those states that do. The most important thing here is how corruption issues are addressed internally by each state and how effective their anti-corruption efforts are. When looking at the correlation between corruption and state reputation there is no doubt that corruption in general negatively affects state reputation. Therefore, tainted state reputation caused by corruption can often hamper relations between countries. However, it should be kept in mind that risks and corruption itself can – as noted above – be turned into reputational opportunities. Moreover, different types of corruption in different countries have different effects. Every single case should be studied separately. That is why I will sharpen my research focus by examining the case of the Norwegian-Russian relations in the next section.

5.2. Discussion of research question 2: Does corruption in business affect Norwegian-Russian relations?

The second research question, in contrast to the first one is more specific and narrows the research focus down to the Norwegian-Russian relations. International business relations are an important part of relations between countries. In the case of Norwegian-Russian relations, trade has always been the main factor shaping bilateral relations. As noted by Vladimir Bagreev, Head of the Norwegian-Russia Chamber of Commerce (NRCC) (interview 1, table 1), trade relations between Norway and Russia (particularly the trade route *from the*

Varangians to the Greeks) historically facilitated the culture of the Pomors and even a common language which was a mixture of the Russian of Scandinavian languages.

Referring back to section 3.1, the Norwegian-Russian relations have developed rapidly since the 1990s. In 2010 Norway and Russia signed two important bilateral agreements: the first one establishing the maritime border line between the two countries in the Barents Sea and the second one simplifying the local border traffic regime in the North. Both agreements were aimed at expanding the Norwegian-Russian cooperation in the strategically important for both countries region – the High North. By Norwegian-Russian cooperation I have in mind the bilateral business and trade cooperation, which is very much concentrated in particular business areas: seafood, oil and gas technology (which accounts for most of the Norwegian export to Russia), metals and fertilizers (which accounts for most of the import from Russia to Norway). The similar tendency can be observed in the Norwegian investment policy in Russia – most of the Norwegian investments are made in the oil and gas industry and mining sector. Recent Russian investments in Norway are ten times lower than the Norwegian ones in Russia and limited mostly to the oil and gas sector. All these factors are important to be aware of when studying how corruption affects Norwegian-Russia cooperation.

Many experts in economics and development believe that corruption creates nothing but problems for the economy (Houston, 2007). Today there are a lot of states, international governmental and non-governmental organizations that aim to fight corruption globally (see chapter 2). The United Nations, the World Bank, the International Monetary Fund, the Organization for Economic Cooperation and Development, the Council of Europe, GRECO, and INGOs such as Transparency International, all work in the field of anti-corruption. The Joint efforts of the international anti-corruption movement have helped make important steps in anti-corruption efforts and elaborated a solid theoretical base for studying the phenomenon. More specifically, as mentioned in section 3.2, Anker (2009) views corruption in Russia as the reason why Norwegian companies are reluctant to invest in Russia. I will argue against this statement and generally many similar arguments that views corruption as a factor only negatively impacting economic growth and only preventing foreign investments in corrupt countries.

Corruption and its link to economic growth and foreign investments

First of all, the effects of corruption are not really easy to measure. Some recent studies on corruption have shown that there is no direct link between corruption and economic growth. It is, therefore, very hard to measure the effect of corruption on economic growth because there are a lot of other economic and political factors that influence the economy apart from/or together with corruption. At the same time corruption may influence economic growth through its negative effect on competition, entrepreneurship, government efficiency, the social sector and other spheres of people's life.

Both Mauro's (1995) and Svensson's (2005) studies, for instance, have measured corruption in the cross-country setting. Both researchers do not find a strong link between corruption and economic growth. Bureaucratic efficiency has a much greater impact on economic growth and foreign investments. Svensson (2005, p. 39) underlines that there are a lot of variables that can be omitted when studying corruption. Among those are the extent of market regulation, market capacity, and even reverse causality, when rapid growth may increase the corruption level. Svensson (2005, p. 39) also argues that different types of corruption are not equally harmful for an economy and its growth in a cross-country setting. That is why it is better to study corruption case by case.

Additionally, some scholars argue that corruption sometimes does not deter foreign investments when less corrupt countries invest in more corrupt ones. Many emerging economies such as China, Russia, India, Brazil and Mexico attract a significant investment flow despite their relatively high level of corruption (Habib and Zurawicki, 2002, p.291). This argumentation can also be relevant for Norway and Russia. This is the case when businesses from Norway, a country with a perceived low level of corruption invest in Russia – a country with a perceived higher corruption level.

Another scholar –Douglas Houston (2007) – looks at corruption from another angle, claiming that corruption can even have a positive impact on the economy. But this may happen only when a state fails to establish and enforce the rule of law. In general Houston divides corrupt activities into economically restrictive and economically expansionary ones. For example when a law does not contribute to the economy or the society but creates

problems for businesses, involved businessmen may bribe officials to evade the bad law. In this case corruption may be economically expansionary and therefore affect the state economy positively (Houston, 2007).

This argumentation does not undermine the obvious importance of international anti-corruption movement that aims to reduce corruption globally. However, corruption does not have the same effects on all countries and their economies. In the case mentioned above other economic factors may decrease the effects of corruption on the economy and business cooperation. Thus, for instance, the estimated risks of entering a corrupt country can be much lower than the estimated profits a company may gain by investing and operating in corrupt but still very profitable markets with a good future potential. This seems to be the case in Russia as a country, which is perceived to be relatively corrupt, but is very attractive for foreign investments including those from Norway.

Structure of the Norwegian-Russian business cooperation

Addressing the second counter-argument I would refer to the structure of the Norwegian-Russian business cooperation. As mentioned above, the bilateral cooperation is very much concentrated in the short list of businesses. Most of these businesses are large companies such as Statoil, Yara, Aker Solutions, Kværner, Jotun, Telenor, Orkla, Lukoil and Rosneft. According to the Ministry of Economic Development of Russia, these large businesses play the most important role in, and form the basis of, the Norwegian-Russian business cooperation (Ministry of Economic Development of the Russian Federation, 2013). Some of them are partially state-owned. Most of them have considerable international experience and also their own anti-corruption programs. The analysis of my research interviews indicates that the Norwegian business giants are not afraid of doing business in Russia even though the country is perceived to be fairly corrupt. The interviewees from Yara and Kværner (interviews 8 and 6, table 1) do not think that the corruption level in Russia is an obstacle for their business practice in Russia. TI Norway's representative also underlined in the interview (interview 7, table 1) that the INGO does not see the corruption level in Russia as an obstacle for the Norwegian companies if they take sufficient anti-corruption measures as TI recommends in its book (Halvorsen, 2014). Moreover, all corruption-related risks are actually included in the companies' strategic business plans for Russia. The expected gains

from doing business and investing in Russia are normally estimated to be much higher than the corruption-related risks.

My research results thus correspond to those of Tina Søreide (2004). Her study shows that once established in a foreign market, Norwegian firms rarely (only 5%) prefer to withdraw their businesses from countries in which they experience corruption incidents or even loose contracts due to corruption. Percentage is higher when it comes to penetrating a corrupt country market: one third of Norwegian firms decide not to penetrate a new market due to not only corruption but also other difficulties of the local business climate such as lengthy bureaucratic procedures. At the same time corruption does not play the key role in such business decisions and it is usually evaluated together with many other factors influencing doing business abroad.

Russia's ranking on the World Bank's "Ease of doing business" index has improved a lot during the last five years. Russia has made a lot of reforms since 2010 and made it much easier, for example, to conduct the following business-related activities:

- starting a business (by reducing the number of bureaucratic procedures);
- registering property (by decreasing the time limits for processing property transfer applications);
- doing trade across borders (by reducing the number of documents for export and import transactions);
- obtaining construction permits (by decreasing the number of preconstruction approvals).

(World Bank Group, 2015)

These real improvements are of greater importance for foreign businesses, including the Norwegian ones, than the level of perceived corruption, especially when making important business decisions such as to penetrate or leave the Russian market.

It is also important to take into account the manner in which investments are distributed in the Russian-Norwegian business relations. If corruption significantly affects these relations it would be strange that Norway invests ten times more in the perceived corrupt Russia than Russia invests in Norway with its low level of perceived corruption. Moreover the leading

Russian businesses did not consider investing in Norway until, three years ago, when the oil giants Rosneft and Lukoil opened offices in Norway. The trend is explained by the limited domestic market, high tax rate and other market-related factors (Ministry of Economic Development of the Russian Federation, 2013).

All these facts taken together mean that there are other factors that have a greater impact on companies' investment decisions than the corruption level has. Thus, Russia – due to its relatively high market potential – has attracted significant investments not only from Norway but also from other developed countries, while the recent reforms referred to above are likely to make a positive contribution in terms of the attractiveness of Russia as a country to invest in. As mentioned in section 3.2, a similar tendency can be identified not only in the Norwegian-Russian business cooperation. When looking at TI's Bribe Payers Index countries with the fastest growing economies such as China, India and Russia (at least until the sanctions were imposed on Russia) are located at the bottom of the ranking. This means that these countries have the highest perceived likelihood of paying bribes abroad. However, these countries still receive a significant amount of foreign investments and experience much higher economic growth, than the developed ones.

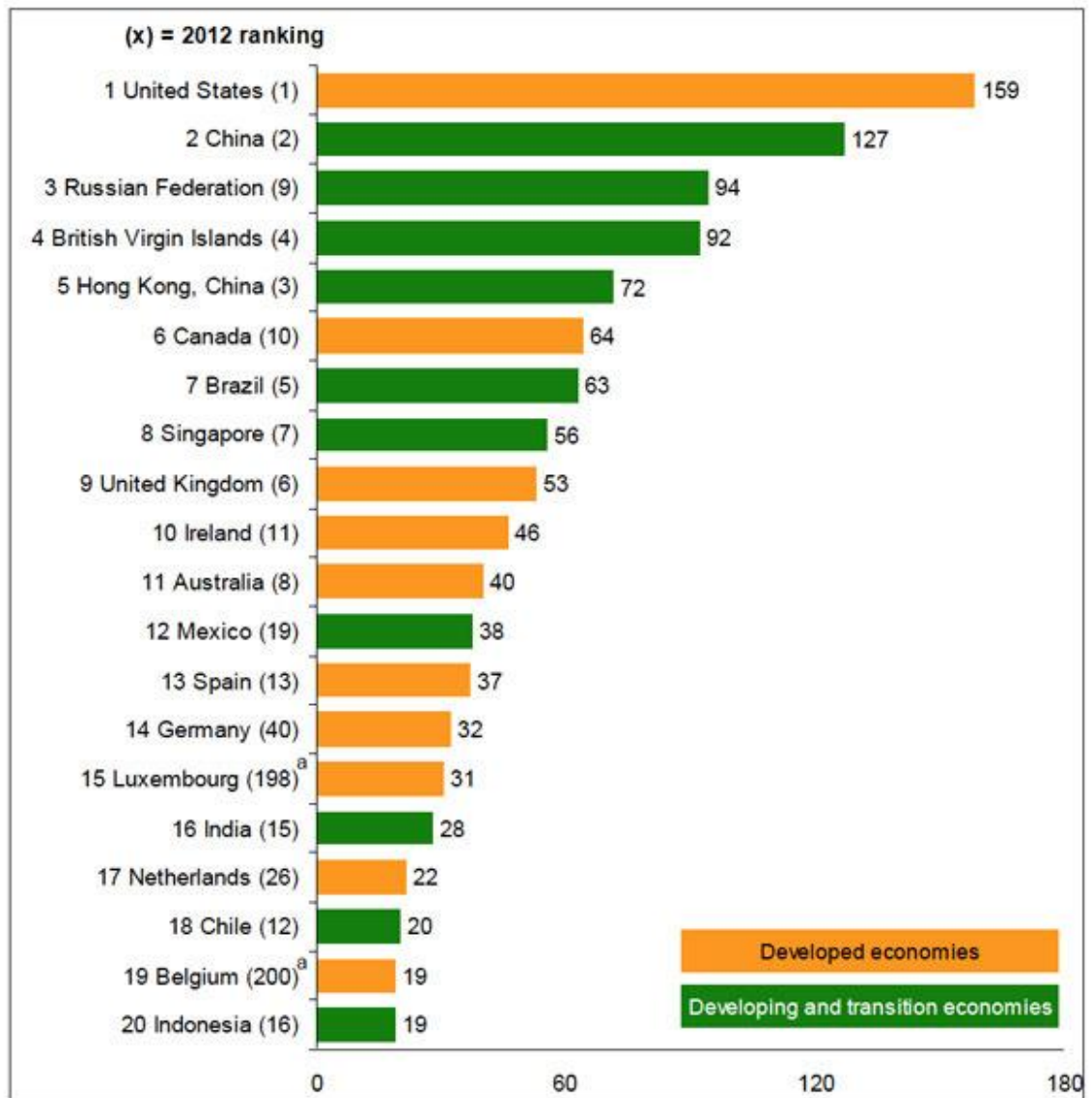
Corruption and its reputational effects

As I concluded in the previous section, corruption can damage state reputation and therefore negatively affect relations between countries. Further, different types of corruption in different countries do not have the same effect on single states and the cooperation between them. Obviously there are some situations in which corruption has no negative or limited negative effect on state reputation. Is it possible to identify these exceptions in the manner in which corruption influences Norwegian-Russian cooperation? Undoubtedly corruption (especially in the public sector) is a serious problem for Russian society. For the country itself corruption has a negative effect on competition, entrepreneurship and the quality of good and services, government efficiency, the social sector and other spheres of people's lives. It is therefore very important for Russian society to minimize the corruption impact on the above listed aspects of life. However, the current situation with corruption in Russia does not have the same importance for the Norwegian businesses aiming to maximize their profits in Russia. Many Norwegian business giants successfully penetrated the Russian market in

the most difficult, risky and corrupt 1990s and have successfully expanded their businesses (at least until the Western sanctions were imposed). In general, Norwegian businesses have a very strong anti-corruption culture. During my daily life in Norway and particularly during my research interviews I have had the pleasure of communicating with Kværner employees. The company is a representative of this strong anti-corruption culture. Kværner has proven that it is possible to survive, to be competitive and make profits in the Russian market without engaging in corruption. Undoubtedly, due to the latest anti-corruption legislation introduced in Russia (see section 3.4) it will be easier for such companies to adhere to this anti-corruption culture in the future.

The other thing which is important to mention when discussing reputational effects of corruption is the role of indices such as the TI's CPI or the World Bank's "Ease of doing business". These important international rankings can either maintain and enhance state reputation or they can damage and worsen it. Thus, Russia's ranking in the CPI, which is based on perceptions of elite business people and publically reported, creates an even wider perception of Russia as corrupt. This can easily lead to reputational damages for Russia despite the fact that recently a lot of legislative and executive measures have been taken to fight corruption in the country. At the same time the Russian anti-corruption legislation is criticized for lacking effective law-enforcement mechanisms. Thus, even though the legislation helps reveal more and more instances of corruption many people and companies still find a way in which to avoid or minimize legal penalties. In this case, unfortunately, Russia has not succeeded in turning corruption risks into opportunities for improving its reputation as described above.

As a matter of fact the perceived corruption level and the manner in which Russia deals with the phenomenon cannot really improve its reputation - at least not at present. Therefore corruption in Russia negatively affects its reputation and this fact can obviously not contribute positively to the Norwegian-Russian relations. In general, despite the recent improvements in the business and anti-corruption legislation, Russia's international reputation is far from being good. At the same time Russia is famous as a country that has a large amount of various natural resources. The opportunities of utilizing these resources and the very high profits this can yield also play an important role in attracting international business and foreign investments to Russia.



Source: UNCTAD.

^a Negative flows in 2012.

(UNCTAD, 2014)

As the above diagram shows, Russia was among the world's top three receivers of foreign investments in 2013. The oil- and gas-targeted investments are an important part of the foreign investments in Russia. Therefore, it is logical to argue that the opportunities for large scale international business in Russia - or perhaps Russia's reputation as a country with unlimited lands, resources and opportunities - sometimes outweigh the negative state reputation with regards to the perceived high level of corruption. In other words Russia's relatively bad state reputation can play a less significant role, when high profits and business opportunities are at stake. Thus, for instance, Gro Skaaren-Fystro a TI Norway Special

Adviser (interview 7, table 1), noted that even though Norwegian companies need to watch out and take anti-corruption issues very seriously when operating in Russia, the Russian market is very important for Norwegian business and the latter should not avoid the market if it is perceived as relatively corrupt.

Statistical data that can be found on the website of the Russian Finance Ministry also indicates that foreign investments in the Russian economy increased until 2014 (Ministry of Finance of the Russian Federation, 2013). Both the statistical data from the UN mentioned above and the Russian Ministry of Finance show the general trend of all foreign investment in Russia. The same trend is found in the case of Norwegian-Russian business cooperation. Norwegian investments in Russia also showed a positive dynamic (Anker, 2009, p.35).

The role that the mass media play in enhancing, maintaining or damaging state reputation should not be underestimated. Russia's international reputation is undermined by the fact that both leading foreign (including Norwegian ones) and occasionally also Russian media sources are too much focused on the negative examples of foreign businesses operating in Russia, while the "success stories" are often not covered at all. This issue was raised by the Head of the Norwegian-Russian Chamber of Commerce in Russia, Vladimir Bagreev, in one of my research interviews (interview 1, table 1): "narrow-mindedness and bias of the leading media sources plays a much more destructive role for the Norwegian-Russian business cooperation than corruption".

The Jotun Group is originally a Norway-based international company which is a global player in the market of decorative paints and performance coatings. The company recently opened a new factory in the St. Petersburg region. The Norwegian Crown Prince, Haakon, attended the opening ceremony on 26 February 2014. This event appears to be important for Norwegian-Russian business cooperation. This significant investment decision is estimated at approximately 1.7 Billion RUB. Nevertheless, the event was neither covered by the leading Norwegian media sources, nor by leading Russian ones. This happens, perhaps, because the leading media in both countries prefer to address mostly negative events. As Bagreev mentioned (interview 1, table 1), a similar tendency can be observed in the case of Telenor. Much attention was paid to the fact that Telenor experienced troubles with its Russian partner. However, the facts that the dispute was eventually resolved and that the

Telenor's business partnership became one of the most profitable of Telenor's business branches did not attract equal media attention. This tendency to cover the mostly negative cases and aspects of doing business in the Russian market can only worsen Russia's reputation.

Taking into consideration all the factors mentioned above it makes sense to claim that corruption in general has an indirect negative effect on foreign investments and economic growth. At the same time, as mentioned before, it is hard to find a direct and clear link between corruption, economic growth and foreign investments. In some exceptional cases corruption may even contribute to economic growth as argued by some scholars from the 1960s (Leff, 1964; Huntington, 1968) and by some of the modern scholars (Houston, 2007). This is obviously not the case in Russia. Still, the data presented above shows that corruption in Russia does not have any significant effect on the current Norwegian-Russian business cooperation. This is primarily due to the following:

- the structure of Norwegian-Russian business cooperation, which is highly concentrated in the oil, gas and mining industry. Once established in Russia, Norwegian businesses rarely retreat from the Russian market due to corruption;
- mostly large Norwegian businesses that can deal with corruption-related risks invest in Russia;
- the estimated profits of investing in Russia are higher than the estimated corruption-related risks;
- Russia has several reputations: the reputation of Russia as a country with huge natural resources may outweigh its relatively negative reputation in terms of corruption;
- the Russian market has a good potential for growth and this gives extra-opportunities for Norwegian business.

At the same time, business cooperation between countries normally consists of not only cooperation at the large-size business level. The small and middle-size business level is also an important part of such business cooperation. Corruption in Russia and Russia's reputation in the area of anti-corruption can be more significant obstacles for the small and middle-size businesses considering investing in Russia. This factor was stressed by Anton Pominov, the head of TI Russia (interview 3, table 1), and also by a representative of the Norwegian

Embassy in Moscow (interview 5, table 1) during my interviews. Pominov, for example, referring to this experience in anti-corruption, said that small and middle-size business are more exposed to corruption in the Russian market than large businesses with their famous products. Thus, foreign small and middle-size businesses aiming to invest in Russia, experience higher corruption-related risks compared to the large-size ones. This may happen due to a lack of resources that small and medium businesses can allocate to anti-corruption measures. Thus, corruption negatively affects further development of the Norwegian-Russian business cooperation at the level of small and middle-size businesses, while not having a significant effect on the current state of the bilateral cooperation which is mostly related to the large-scale business level.

In contrast to the corruption-related effects on the bilateral cooperation, politics play a more significant role in the Norwegian-Russian relations. As a political factor the recent Western sanctions against Russia and Russia's response to them have affected the bilateral cooperation in many sectors and levels including business relations, political and military relations. The Ukrainian crisis and the sanctions were addressed by all my interviewees even though my interview questions did not refer to these topics. The majority of the interviewees noted that the current international situation and particularly the sanctions are the most serious problem for the Norwegian-Russian cooperation. The main areas of the Norwegian-Russian business cooperation are experiencing the loss of contracts in Russia and thus financial losses because of the international situation. Thus, politics affect the Norwegian-Russian cooperation in a much more negative way than corruption does.

5.3. Discussion on research question 3: Has the Yara-case affected Norwegian-Russian relations – and in case how?

The third research question is even narrower than the first and the second ones and addresses one specific corruption case. As it was mentioned above, the Norwegian-Russian business relations are highly concentrated in the oil and gas sector as well as in seafood and mining. However, fertilizers and their components are also an important part of the Norwegian-Russian trade relations. Yara used to have shares in some fertilizer factories in Russia such as *Apatit*. Faced with tough competition from its main competitor *Phosagro*, Yara had to sell its shares in that factory to its competitor. The Norwegian authorities disclosed that Yara was involved in bribing some of *Phosagro*'s officials as a part of favorable supply contract with

Phosagro. Yara still operates in the Russian market. However, as a Yara's representative mentioned in one of my interviews (interview 8, table 1), at present the company mostly purchases raw materials produced in Russia.

One of the reasons why such a big and famous Norwegian company engaged in corruption in Russia may be the domestic market situation. According to Tina Søreide (2004) Norwegian companies are more exposed to corruption when operating abroad if competition is high. Yara was faced with severe competition from Phosagro and Phosagro's aggressive market strategy. Therefore, both the market situation and the competition are likely to have influenced Yara's decision to bribe Phosagro. Obviously, the corruption case has negatively affected the company both economically and reputation-wise. Moreover, Yara has pleaded guilty of corruption not only in Russia but also in Libya and India. The number of corruption cases worsens the possible reputational damage for Yara. However, Yara has helped Økokrim investigate the case and has fully cooperated with the authorities during the process (Økorkim, 2014). This shows that even though Yara failed to prevent internal corruption incidents abroad, the company has still made efforts to rectify the outcome of the corruption. This strategy obviously decreases the corruption-related reputational damage for Yara.

Being one of the most famous Norwegian brands Yara represents Norway when working abroad. In this context it is logical to say that Yara's reputation is somehow connected with that of Norway. Moreover, Yara is a partially-state owned company: the Norwegian government owns 36 percent of its shares. This fact even more connects the company's reputation to that of Norway itself. At the same time, the Yara cases and some other corruption incidents, in which Norwegian companies were recently accused of being involved (e.g. the case of the Kongsberg Group and Telenor), show that Norway has effective mechanisms to disclose and investigate Norwegian business corruption abroad. This fact of course minimizes possible reputational damage for Norway.

The reputational damage caused by the Yara corruption case does not mean that Norway will be perceived as a corrupt state. But Norway's reputation as a country with one of the best anti-corruption policy may be tainted (The Nordic Pace, 2014). This is possible mainly due to the fact that the latest corruption cases were also disclosed in other partially-state owned companies such as the Kongsberg Group and Telenor. Guro Slettemark, Head of

Transparency International Norway recently said to *The Financial Times* that these cases should be a “wake up call” for Norwegian business. She also encouraged Norwegian politicians to wake up and act (Crough, 2015).

It is rather difficult to address the reputational effects of the Yara corruption case in Russia separately simply because the other corruption incidents were discovered almost at the same time. If we imagine that only the Yara case had occurred, it would have had a much lower probability of weakening Norway’s reputation. Obviously, not only the Yara case, but all the corruption cases taken together, may negatively affect Norway’s reputation as one of the least corrupt countries in the world. Therefore, the following question pops up: may the reputational damage caused by the Yara case alone negatively affect Norwegian-Russian business cooperation? The Yara representative I interviewed claimed that (interview 8, table 1) undoubtedly, the corruption case in Russia is a black spot on the company’s reputation. However, he did see any long-term reputational damage neither for the company nor for the Norwegian businesses operating abroad, including in Russia.

Additionally, it is necessary to examine how the case has been covered in the Russian media. One of the main manners in which a state’s reputation and its image may be spread between countries is media coverage. It is absolutely worth noting that the Yara corruption case in Russia did not receive much coverage in the Russian media. Even though Yara was involved in corruption in Russia it simply did not attract any particular interest from the main Russian mass media resources. Very few Russian media outlets available on the Internet have mention the case, compared to the extensive media coverage the case received in the Norwegian media. However, the Norwegian media focused more on Yara’s corruption in Libya and India, than on the corruption case in Russia. Not surprisingly, this trend was supported during my interviews. Even though all the interviewees are either experts on corruption or have several years’ experience in Norwegian-Russian business cooperation four out of eight interviewees had not heard about the Yara corruption case in Russia. These four interviewees represent equally Russia (representatives of TI Russia – interview 3, and Kvaerner Russia – interview 2, table 1) and Norway (representatives of the Norwegian Embassy in Moscow – interview 5, and Kvaerner Norway – interview 6, table 1). Even the leader of Transparency International Russia was not aware of the Yara case in Russia. The first reason for it could be that, as mentioned above, the leading Norwegian media outlets

covered mostly Yara's corruption cases in Libya and India. The second reason could be that a number of other much more famous corruption cases occurred in Russia at the same time as the Yara case – such as the chain of corruption cases related to Moscow's ex-mayor Yuri Luzhkov and his relatives, and also corruption incidents in the Ministry of Defense: the Defense Minister, Anatoly Serdyukov, and his Deputy were accused of corruption and embezzlement. Such high level public sector corruption undoubtedly commanded much more attention in the leading Russian mass media.

After I shared the information about the Yara corruption case in Russia, the majority of the interviewees did not think that the case will have any significant negative impact on Norway's reputation in the eyes of Russian businesses. Therefore, the corruption case is not likely to affect Norwegian-Russian business cooperation. A representative of the Russian Trade Mission in Oslo (interview 4, table 1), for instance, thinks that the case will neither weaken the generally good reputation of Norwegian businesses in the eyes of their Russian partners, nor damage Norwegian-Russian business cooperation as such – due to the fact that all corruption-related risks are included in the long-term strategies of the Norwegian state and Norwegian companies operating in the Russian market. He notes also that the profits that Norwegian companies gain in Russia are much higher than the ones they gain at home in Norway. That is why large investors such as Telenor entered the Russian market during the challenging 1990s when it was much harder to do business in Russia than it is at present. This also means that the Yara case which took place in Russia would unlikely affect attractiveness of Russia as a country in the eyes of Norwegian business. Natalya Isaeva, a compliance manager at Kvaerner (interview 2, table 1), mentions that even though such cases as the Yara corruption case may slightly negatively affect Russia's reputation, the case will not affect Norwegian companies with a strong anti-corruption culture and an effective anti-corruption policy. She adds that it would be unprofessional for a company to fear corruption-related risks especially given that many Norwegian companies such as Kvaerner have proved that is possible to succeed in the Russian market without engaging in corruption.

Taking into account the information presented above I cannot see any evidence of any significant impact of the Yara corruption case on the Norwegian-Russian business relations. Even though the case has negatively affected Yara's reputation, it can hardly significantly

weaken Norway's reputation separately from the accumulative effect of all the corruption incidents in which the Norwegian state-owned companies have been involved. Therefore, the information presented above suggests that the Yara case did not negatively affect Norway's reputation in the eyes of Russian businesses. The other way around, it is also unlikely that the Yara case has damaged Russia's state and business reputation in the eyes of Norway and Norwegian businesses.

6. Conclusion

The significance of the Norwegian-Russian relations is increasing together with the importance of their cooperation in the High North – a strategically important region for both Norway and Russia. That is why it is crucial to study corruption as a factor that has the potential to weaken Norwegian-Russian cooperation. This thesis, therefore, aimed to answer the following research questions moving from the general to the specific:

- RQ 1. Does corruption affect relations between countries?
- RQ 2. Does corruption in business affect Norwegian-Russian relations?
- RQ 3. Has the Yara-case affected Russian-Norwegian relations – and in case how?

In general corruption may hamper relations between countries through its negative impact on state reputation. The participation of states in international anti-corruption conventions positively affects their state reputation, but the effectiveness of the domestic anti-corruption measures that these states take plays a more important role here. If country A is involved in corruption in country B there are reputational losses for both countries because in this case nationals of both countries are usually involved. In order to establish whether such a case may influence relations between countries A and B it is necessary to study the actual case. Corruption has many forms, shapes and dimensions. Moreover its effects vary a lot from country to country and from case to case. Certain corruption risks and corruption cases may even be turned into reputational opportunities having no negative or sometimes even a positive effect on relations between states. Every single case should, therefore, be studied separately.

During the investigation I discovered that mass media outlets affect the reputation of Russia in a negative way. Then leading Norwegian mass media sources focus mostly on failures and problems (including corruption-related ones) of Norwegian businesses in Russia and do not provide much coverage of the success stories while leading Russian media very rarely covers successful examples of cooperation with Norway. Thus, the mass media unfortunately negatively affects Russia's reputation and, therefore, willingness of Norwegian businesses to operate in Russia by broadcasting mostly negative side of reality.

In spite of the corruption-related reputational losses, the evidence presented above shows that corruption does not pose a threat for, and is far from being a significant problem for, the

current Norwegian-Russian business relations. At present, this is the case due to the structure and character of the Norwegian-Russian cooperation, as well as other economic reasons including the high market profitability that outweighs the corruption-related risks of doing business in Russia. However, corruption is likely to play a more significant role for the development of the medium and small-size business cooperation between the two countries.

More specifically, as regards the Yara case, there is little evidence that this corruption case has had any significant impact on Norwegian-Russian business relations. Even though the case has negatively affected Yara's reputation, it can hardly weaken the Norway's reputation alone without the additional effects of the other corruption incidents in which the Norwegian state-owned companies were recently involved. The Yara case has not affected Norway's reputation in the eyes of Russian businesses. Conversely, it seems unlikely that the case has damaged Russia's state and business reputation (which is already relatively poor in terms of corruption) in the eyes of the Norwegian partners. I, therefore, conclude that the Yara case has not affected Norwegian-Russian business relations.

The research results presented above indicate that corruption is a complicated and multi-dimensional phenomenon especially when looking at it from the cross-country perspective. It is very hard to achieve any universal knowledge about corruption. Therefore, this thesis stresses the need for conducting research, which is as specific and concrete as possible i.e. every single case should be studied separately. The results of this thesis provide the basis for further research on corruption and its effects on Norwegian-Russian relations - applying both qualitative and quantitative research methods. A possible topic for the research in this direction at PhD level could be the following: how could the corruption-related impact on Norwegian-Russian business relations be minimized – given the peculiarities of bilateral cooperation? Research in this direction could search for appropriate measures and strategies for avoiding or removing corruption-related obstacles to the sustainable development of Norwegian-Russian relations.

7. References

- Anker, Morten. (2009). The High North and Russo-Norwegian bilateral economic relations. Russia, Finland and Norway: Economic Essays. URL: <http://www.fni.no/russcasp/MABon1009-32-41.pdf> (Read: 14.04.2014)
- Anti-corruption research network: *Forms of corruption in history and in contemporary society: origins, continuity, evolution*. (2014). URL: <http://corruptionresearchnetwork.org/events/forms-of-corruption-in-history-and-in-contemporary-society-origins-continuity-evolution> (Read: 04.07.2014)
- Barcham, Manuhua, Barry Lindess and Peter Larmour. (Eds). (2012). *Corruption: Expanding the Focus*. Canberra: ANU E Press
- Berg, Bruce Lawrence. (2001). *Qualitative research methods for the social sciences*. 4th Edition. Long Beach: California State University
- Bergo, Havard. (2014). Ukraine crisis hurts Arctic relations. In: *Global Risk Insight*. URL: <http://globalriskinsights.com/2014/10/ukraine-crisis-hurts-arctic-relations/> (Read: 20.03.2015)
- Bonime-Blanc, Andrea. (2015). Corruption reputation risk and opportunity. *Ethical Corporation*. URL: <http://www.ethicalcorp.com/business-strategy/corruption-reputation-risk-and-opportunity> (Read: 01.04.2015)
- Brademas, John and Fritz Heimann. (1998). Tackling International Corruption: No Longer Taboo. *Foreign Affairs*. URL: <https://www.foreignaffairs.com/articles/1998-09-01/tackling-international-corruption-no-longer-taboo> (Read: 20.09.2014)
- Civil Law Convention on Corruption. (2015). Status as of: 01.05.2015. URL: <http://conventions.coe.int/Treaty/Commun/ChercheSig.asp?NT=174&CM=&DF=&CL=ENG> (Read: 01.05.2015)
- Cobham, Alex. (2013). Corrupting Perception: Why Transparency International's flagship corruption index falls short. In: *Foreign Policy*. URL: <http://foreignpolicy.com/2013/07/22/corrupting-perceptions/> (Read: 15.02.2014)
- Corruption by country: Russia. (2014). Transparency International. URL: http://www.transparency.org/country#RUS_DataResearch (Read: 01.03.2014)
- Criminal Law Convention on Corruption. (2015). Status as of: 01.05.2015. URL: <http://conventions.coe.int/Treaty/Commun/ChercheSig.asp?NT=173&CM=&DF=&CL=ENG> (Read: 01.05.2015)
- Crough, David. (2015). Norwegian businesses warned of 'wake-up call' on corruption. *The Financial Times*. URL: http://www.ft.com/intl/cms/s/b2adaa86-8a85-11e4-be0e-00144feabdc0,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2Fb2adaa86-8a85-11e4-be0e-00144feabdc0.html%3Fsiteedition%3Duk&siteedition=uk&_i_referer=#axzz3YzRVAaEA (Read: 16.01.2015)
- Downs, George W. and Michael A. Jones. (2002). Reputation, Compliance, and International Law. *Journal of Legal Studies*. Vol.31, pp. 95-114

- Evstigneev, Alexandr. (2015). [Last week several officials were sued for corruption]. In: *Channel One Russia*. (In Russian) URL: <http://www.1tv.ru/news/world/281194> (Read: 17.03.2015)
- Giske, Trond. (2011). Russia and Norway: Perspectives for Economic Cooperation. In: *the Moscow Times*. URL: <http://www.themoscowtimes.com/sitemap/free/2011/11/article/russia-and-norway-perspectives-for-economic-cooperation/447069.html> (Read: 24.01.2015)
- Government. (2010) Russia and Norway sign agreement on local border traffic regime. URL: <https://www.regjeringen.no/en/aktuelt/russia-and-norway-sign-agreement-on-loca/id622461/> (Read: 28.03.2015)
- Graycar, Adam and Russell G. Smith, eds. (2011). *Handbook of Global Research and Practice in Corruption*. Cheltenham: Edward Elgar Publishing Limited
- GRECO. (2013). Joint First and Second Evaluation Round: Addendum to the Compliance Report on the Russian Federation. Strasbourg: 58th Plenary Meeting of GRECO URL: http://www.coe.int/t/dghl/monitoring/greco/evaluations/round2/GrecoRC1&2%282010%292_Add_RussianFederation_EN.pdf (Read: 20.02.2015)
- GRECO. (2014). What is GRECO? URL: http://www.coe.int/t/dghl/monitoring/greco/general/3.%20What%20is%20GRECO_en.asp (Read: 25.03.2015)
- GRECO. (2015). GRECO: Member and Observers. URL: http://www.coe.int/t/dghl/monitoring/greco/general/members_en.asp (Read: 03.03.2015)
- Habib, Mohsin and Leon Zurawicki. (2002). Corruption and Foreign Direct Investments. *Journal of International Business Studies*. Vol. 33, no. 2 (Second Quarter 2002): 291-307. URL: <http://www.jstor.org/discover/10.2307/3069545?uid=3738744&uid=2134&uid=2&uid=70&uid=4&sid=21106017624931> (Read: 09.04.2015)
- Halvorsen, Arvid (Ed). (2014). *Protect your business: Anti-corruption handbook for the Norwegian business sector*. Oslo: TI Norway
- Houston, Douglas A. (2007). "Can corruption ever improve an economy?" *Cato Journal*, Vol. 27, No. 3 pp. 325-342.
- Huntington, Samuel. (1968) *Political Order in changing societies*. New York: Yale University Press.
- Hustadnes, Halldor. (2014). Russiske PhosAgro vil granske Yara-korrupsjonen: Vil reise søksmål hvis korrupsjonen i Yara har påført selskapet tap. *Dagbladet*. URL: <http://www.dagbladet.no/2014/01/22/nyheter/korrupsjon/yara/31422584/> (Read: 04.03.2014)
- Kuzovkov, Yuriy. (2010). [*World history of corruption*]. (In Russian). Moscow: Anima-Press
- Leff, Nathaniel H. (1964). Economic Development Through Bureaucratic Corruption. *American Behavioural Scientist*. Vol. 8; no. 3, 8-14.
- Mauro, P. (1995) "Corruption and Growth". *Quarterly Journal of Economics*. 110 (3): 681–712.
- Mercer, Jonathan. (1996). *Reputation and International Politics*. New York: Cornell University Press

- Ministry of Economic Development of the Russian Federation. (2013). [The main results of investment cooperation of the Russian Federation with Norway]. (In Russian) URL: http://www.ved.gov.ru/exportcountries/no/no_ru_relations/no_rus_projects/ (Read: 07.03.2015)
- Ministry of Finance of the Russian Federation. (2013). [Foreign investments in the Russia's economy]. (In Russian). URL: http://info.minfin.ru/investment_in.php (Read: 20.04.2015)
- Mitchell, Charles. (2009). *A Short Course in International Business Ethics*, 3rd Edition. Petaluma: World Trade Press
- Norwegian-Russian environmental cooperation. (2014). In: *the Norwegian Trade Portal*. URL: <http://www.nortrade.com/sectors/news/-norwegian-russian-environmental-cooperation/> (Read: 3.10.2014)
- OECD (2012). *International Drivers of Corruption: A Tool for Analysis*, OECD Publishing. URL: <http://dx.doi.org/10.1787/9789264167513-en> (Read: 12.07.2014)
- OECD (2014). OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions: Ratification Status as of 21 May 2014. URL: <http://www.oecd.org/daf/anti-bribery/WGBRatificationStatus.pdf> (Read: 20.09.2014)
- Open state procurement. (2013). New system of state procurement. URL: http://goszakupki.open.gov.ru/about_new/ (Read: 04.04.2015)
- Provost, Claire. (2011). It's business as usual when it comes to companies paying bribes. *The Guardian*. URL: <http://www.theguardian.com/global-development/datablog/2011/nov/02/bribe-payers-index-business> (Read: 05.05.2015)
- Pettersen, Trude. (2014). Coining it in on cross-border shopping. In: *Barents Observer*. URL: <http://barentsobserver.com/en/society/2014/02/coining-it-cross-border-shopping-04-02> (Read: 28.03.2015)
- Rose-Ackerman, Susan. (2007). Measuring Private Sector Corruption. URL: <http://www.cmi.no/publications/publication/?2755=measuring-private-sector-corruption> (Read: 12.12.2014)
- Security Council of the Russian Federation. (2008). [The state policy of the Russian Federation in the Arctic until 2020]. (In Russian). URL: <http://www.scrf.gov.ru/documents/98.html> (Read: 12.03.2015)
- Skagestad, Odd Gunnar. (2010). The High North: An Elastic Concept in Norwegian Arctic Policy. Fridtjof Nansen Indtitute. FNI Report 10/2010
- Simons, Greg. (2013). Nation Branding and Russian Foreign Policy. UI Occasional Papers. The Swedish Institute of International Affairs. URL: <http://www.ui.se/eng/upl/files/97515.pdf> (Read: 30.04.2015)
- Staalesen, Alte.(2013). Russian fertilizer giant in Norwegian corruption scandal. In: *Barents Observer*. URL: <http://barentsobserver.com/en/business/2013/10/russian-fertilizer-giant-norwegian-corruption-scandal-22-10> (Read: 05.03.2014)
- Stefes, Christoph H. (2007). Measuring, Conceptualizing, and Fighting Systemic Corruption: Evidence from Post-Soviet Countries. In: *Perspectives on Global Issues*. Volume 2, Issue 1, Autumn 2007
- Svensson, J. (2005). Eight Questions about Corruption. *Journal of Economic Perspectives* 19 (3): 19–42.

- Svetlov, Nikolay. (2013). [Phosagro holding has begun the “second Apatit war”]. *The Moscow Post*. (In Russian). URL: http://www.moscow-post.com/economics/xolding_fosagro_nachal_vtoruju_apatitovuju12523/ (Read: 1.01.2015)
- Søreide, Tina. (2004). *Corruption in international business transactions: The perspective of Norwegian firms*. CMI Report. URL: <http://www.cmi.no/publications/publication/?1868=corruption-in-international-business-transactions> (Read: 11.11.2013)
- The Nordic Pace. (2014). Corruption Case Weakens Reputation of Norway. URL: <http://www.tnp.no/norway/economy/4253-corruption-case-weakens-reputation-of-norway> (Read: 19.01.2015)
- Transparency International. (2011). Bribe Payers Index Report 2011. URL: <http://www.transparency.org/bpi2011/results> (Read: 02.10.2014)
- UNODC. (2015). United Nations Convention against Corruption: Signature and Ratification Status as of 1 April 2015. URL: <http://www.unodc.org/unodc/treaties/CAC/signatories.html> (Read: 01.05.2015)
- UNCTAD. (2014). Global Investment Trends Monitor. No.15. UNCTAD Report. URL: http://unctad.org/en/PublicationsLibrary/webdiaeia2014d1_en.pdf (Read: 19.03.2015)
- Van Ham, Peter. (2001). The Rise of the Brand State: the Postmodern Politics of Image and Reputation. *Foreign Affairs* Vol. 80, №5, pp. 2-6
- World Bank. (2014). *Doing Business 2015: Going Beyond Efficiency*. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0351-2. License: Creative Commons Attribution CC BY 3.0 IGO
- World Bank Group. (2015). *Doing business. Business Reforms in Russian Federation*. URL: <http://www.doingbusiness.org/reforms/overview/economy/russia> (Read: 04.02.2015)
- Yara in Russia. (2014). [Our history in Russia]. (In Russian). URL: <http://www.yara.ru/about-yara/about-yara-local/> (Read: 03.02.2014)
- Yara International. (2014). Yara at a glance. Yara International’s corporate website. URL: http://yara.com/about/at_a_glance/ (Read: 03.02.2014)
- Yin, Robert K. (2003). *Case study research: Design and Methods*. 3rd edition. Thousand Oaks: Sage Publications.
- Økokrim. (2014). Forelegg til Yara på 295 millioner kroner. URL: <http://www.okokrim.no/www-9fdaqu> (Read: 28.03.2015)