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Graduate School of Management
Master in International Business Program

INTERNATIONALIZATION OF NATIONAL OIL COMPANIES:
ASSET ACQUISITIONS AND ASSET SWAPS

Master's Thesis by the 2nd year student
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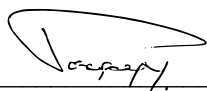
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**ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ
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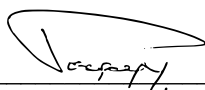
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Abstract

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Master Thesis Title	Internationalization of National Oil Companies: asset acquisition and asset swaps
Faculty	Graduate School of Management, Saint-Petersburg University
Main field of study	International Business
Year	2016
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Description of the goal	The main goal of this thesis is to identify a role of assets acquisitions and assets swaps in internationalization strategy of National Oil Companies. In order to reach this goal, previous works about internationalization strategy of NOCs were investigated and deals provided by the companies were analysed. Data was collected through several interviews with experts from the National Oil Company and secondary research. Single case study approach suited well for the given research and helped to answer stated research questions. The results of the research can be useful in managerial implication for oil industry market players.
Key words	National Oil Companies, Internationalization strategy, Asset acquisitions and asset swaps, Gas

Аннотация

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Описание цели, задач и основных результатов	Основная цель данной магистерской диссертации – определить роль обменов и приобретений активов в стратегии интернационализации национальных нефтяных компаний. Для достижения поставленной цели, данная диссертация обращается к уже существующим работам, посвященным стратегии интернационализации нефтяных компаний. Также, в рамках работы, были проанализированы сделки национальных нефтяных компаний. Данные для работы были собраны в ходе нескольких экспертных интервью и вторичных исследований. Анализ единичного кейса хорошо подходит для данного исследования и помогает ответить на все поставленные в работе вопросы исследования. Результаты исследования могут быть полезными для практического применения компаниям, существующим игрокам на нефтяном рынке.
Ключевые слова	Национальные нефтяные компании, стратегия интернационализации, обмен и приобретение активов, газ, нефть

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INTRODUCTION

Internationalization is an integral part of globalization. In today's world, where global processes erase economic, cultural and ideological boundaries, more and more companies go international. Corporations from Oil and Gas industry internationalize as well. Oil Companies that operate all over the world are called International Oil Companies. As opposed to International Oil Companies, National Oil Companies exist. Companies of this type usually originate from the countries in which the hydrocarbons are presented in excess. Twenty countries produce more than 85 percent of oil in the world. In most of the cases, these countries have one or several state owned National Oil Companies (NOCs). 90 percent of oil reserves belong to companies of this type.

All National Oil Companies internationalize to certain extent. At list, each of them provides international trade operations (export of crude oil), but are they interested in the physical presence in foreign markets? The study is aimed to fulfil a **research gap** in the existing knowledge about asset acquisition approach used by National Oil Companies in their internationalization strategy. **The purpose** of this thesis is to identify a role of assets acquisitions and assets swaps in internationalization strategy of National Oil Companies.

The study is significant because it covers the topic of internationalization process of National Oil Companies, and this type of companies represent the largest corporations in the one of the most important market for the global economy. Process of their internationalization influences all countries and especially it's very important sector for Russia, who is the second hydrocarbon exporter in the world.

To reach the final goal of the study, next **research questions** have to be answered:

- Why do National Oil Companies tend to internationalize?
- What assets are acquired in the process of NOC internationalization?
- Why do National Oil Companies acquire particular types of foreign assets?
- What factors do influence the decision to acquire an asset abroad?
- How do these assets affect National Oil Companies' value chain?

Answers on these specific questions allow to get a comprehensive overview on the topic and help dig deeper into the issue, which is going to be discussed. To make the analysis sufficient and reliable, next several methods are going to be used:

Case study method – This method means a study of an individual unit stressing developmental factors in relation to environment. In a framework of case study Gazprom Neft, as a National Oil Company is introduced;

Secondary data analysis – Secondary data includes: record, scientific papers, researches, interviews, articles from specialized magazines, industry news digests etc. This particular method is very important from the first until the last step of the studying, because oil and gas industry is discussed a lot in all kinds of periodicals due to importance and relevance of the topic;

Primary data analysis – In order to get more deep understanding of Oil and Gas industry and NOCs internationalization approach, interview with the Gazprom Neft company representatives is going to be used.

Structure of the paper consists of 4 sections. The first section discusses the Oil industry itself, opens up the definition of National Oil Company and describes types of assets in oil industry supply chain. Second chapter represents an observation of existing internationalization theories and examine, how they correspond to Oil industry. Third chapter describes the methodology of the study. Final chapter provides thesis with empirical studying and results discussion.

1. OIL INDUSTRY BACKGROUND

1.1. Oil industry overview

1.1.1. Main characteristics and trends

Oil and gas occupy a special niche in the structure of the global consumption of energy resources. As it follows from the data above, oil and natural gas since the mid 60-ies of 20th century were playing a leading role in the global energy industry. In countries as Germany and United Kingdom, the share of oil and natural gas accounts for 55-60% of total energy consumption, in the United States and Japan the share is 75-80%. World Oil and Gas consumption accounts for 53% of world primary energy consumption (BP.com, 2015).

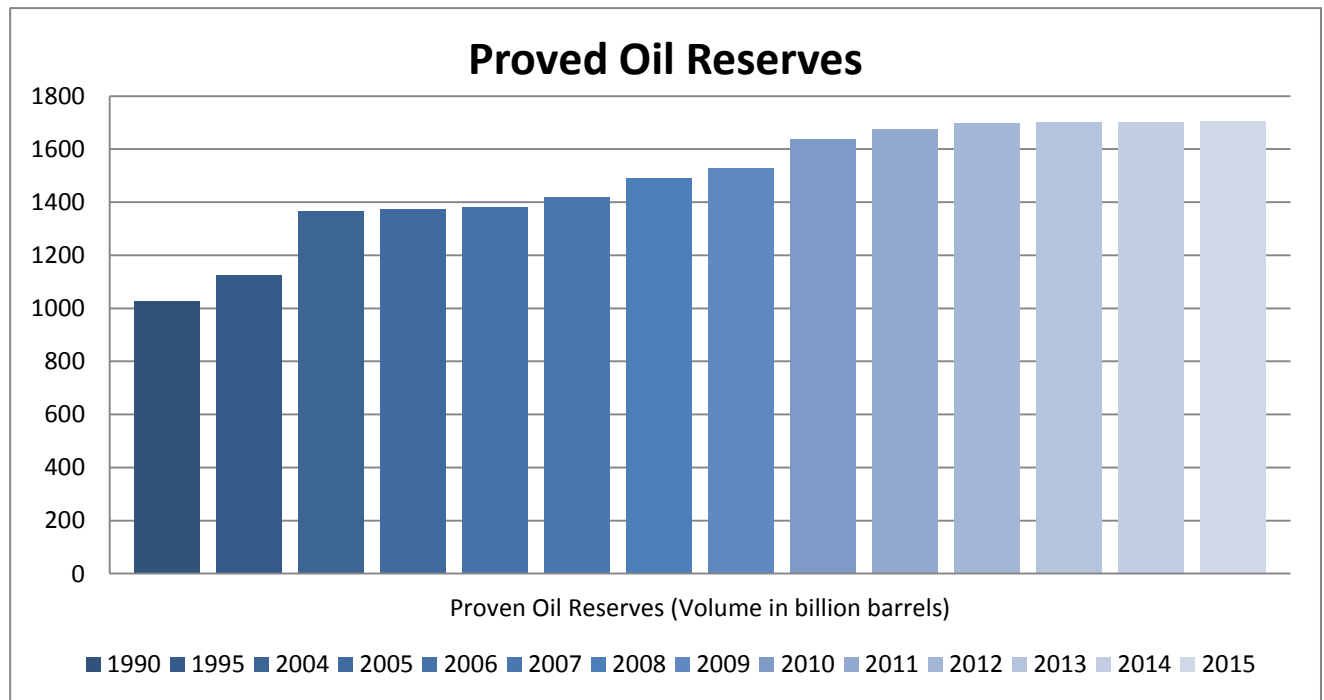
Mainly, oil is so widely used because of the invention of the internal combustion engine. For transport vehicles, gasoline and diesel (refined petroleum products) can be regarded as indispensable resource. Besides that, oil and gas are used for the production of electricity and heat. Advantages of oil and fuel derived:

- High power intensity;
- Convenience of usage;
- Lack of residues elimination necessity;
- Highly developed exciting industry (Jaffe, 2007).

Total world proved oil reserves reached 1700.1 billion barrels at the end of 2015. It is sufficient to meet 52.5 years of global production (BP.com, 2015). The volume of proved oil reserve is changing every year due to the discoveries of new deposits and the development of production technologies. Table 2 shows the dynamics of the world Proved Oil Reserves.

The oil and gas industry is one of the most significant and important sectors in the world economy. Global oil production is accounted to more than four billion metric tons of oil annually. More than 30% of this amount is produced in the region of Middle East. Two biggest leading oil producers are Saudi Arabia and Russia, each of them generates around 13% of the world global production (McKinsey.com , 2016). The third-largest producer is The U.S. It's responsible for over 12% of the total oil production (Statista.com, 2014).

Table 2. Total Proved Oil Reserves



Source: Statista.com, 2016

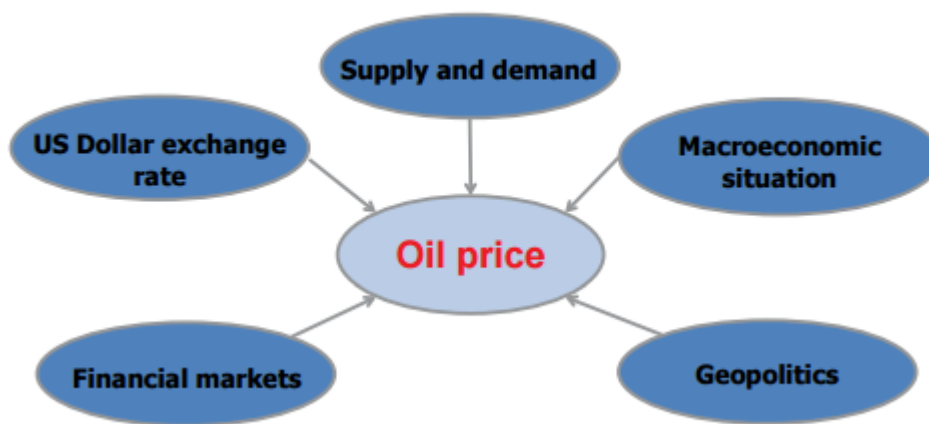
Oil and gas companies are generally included in the list of world's largest companies. Among the worldwide top ten companies based on revenue, six introduce oil and gas industry. In 2015, Anglo-Dutch company Royal Dutch Shell has reported almost 265 billion U.S. dollars of annual revenue. It allowed Shell to become the seventh-largest corporation in the world based on revenue in 2015. Another U.S. oil company, ExxonMobil, was the eighth-largest corporation based on the same indicator in 2015. It has reported 260 billion U.S. dollars of revenue (Statista.com, 2015). Moreover, ExxonMobil states the highest market value in the oil and gas industry, as well as having the second-highest market value of all companies worldwide in 2015.

Demand and consumption of Oil had steady growth over many decades. The United States, as one of the leading consumer of oil, consume 20% of the world oil supply. Correspondingly, USA is the biggest oil importer worldwide. However, U.S. oil consumption was steadily falling since 2005, while China needs for energy resources had rapid increase in recent years. Oil prices were high enough until summer 2014, because of rising global demand and other crucial factors that are discussed further. Let's take a look at the most recognizable oil benchmarks – UK Brent, WTI and OPEC basket – from the data of previous years we can see that oil prices from 2011 to 2014 were quadruple the 2001 prices. However, prices have dramatically decreased in 2015 and thus in 2016 (PWC.com, 2016). In first two months of 2016, prices for crude oil on average were on the level of 27.63 U.S. dollars per

barrel, comparing with average annual price of 96.29 U.S. dollars per barrel in 2014 (Lukoil.com, 2016).

Global oil price dynamics is affected by many factors: the balance of supply and demand, the macroeconomic and geopolitical situation, the dynamics of the US dollar exchange rate and conditions of the global financial markets. Development of extracting technologies allow to get huge resources. From the Figure 1 you can see a graphic representation of the factors affecting the price of oil.

Figure 1. Factors affecting the oil price



The rise in unconventional oil and gas production in the US serves as a good example. Taking into account the US oil production progress, a lot of analytical tend to mark down their long-term oil price forecasts. Further factors are considered more detailed.

The following factors contribute to the rise in oil prices:

- Population growth, urbanization;
- Motorization in Asia;
- Growing costs of exploration and production;
- OPEC policy.

The following factors contribute to the decline in oil prices:

- Dollar depreciation;
- Increase of unconventional oil production in North America;
- Increase of oil production in Iraq;
- Deepwater shelf production;
- Biofuels production growth;
- Gas to liquids (GTL) expansion;
- The lifting of sanctions from Iran (Lukoil.com, 2016).

For oil and gas industry next **trends** are relevant:

1. World demand for oil and gas will continue to increase. The significant, rapid increase of population and the consumer units in Asia shall support oil demand growth. The main driver of consumption growth is going to be transportation sectors (cars and public transport) of developing countries (PWC.com, 2016).

2. The European oil refining industry is suffering from a systemic crisis. Continuing trends like the stagnation in gasoline imports of United States and the development of new, very efficient oil and gas refineries in the Middle East and Asia countries will continue to have a long-term negative impact on European producers (Deloitte.com, 2016).

3. The consumption of gas is tending to rise faster than consumption of oil. The most promising perspectives for gas consumption growth is in Asian countries as China, while the traditional Russian clients - European market will stagnant on the same positions.

4. Maintaining oil production levels in Russia requires huge implementation of new technologies. Nowadays, new developing projects are not able to save current volumes of oil produced (PWC.com, 2016). However, producers from the Middle East don't need progressive extracting technologies due to the geological conditions. Therefore, the difference of oil production in these to major regions will increase.

The future of the oil and gas industry in the long term looks more promising. For example, most of oil-exporting countries in 2020 will produce more oil than in 2011. Experts predict that the global demand for hydrocarbons will continually grow up to 2035. Daily global oil consumption is expected to grow from 89 million barrels in 2012 up to 109 million barrels in 2035. Oil will still remain the most popular energy source in Transportation and industry (Lukoil.com, 2016).

1.1.2. Definition of National Oil Company

Energy resources are unevenly distributed around the world. Some countries, as Russia and Canada, can afford production of any type of raw material. Others, like Germany and France, have exhausted their natural resources and now they have to import ones. Oil industry is not an exception, twenty countries produce more than 85 percent of oil in the world. In most of the cases, these countries have one or several state owned National Oil Companies (NOCs). 90 percent of oil reserves belong to companies of this type. (BP.com, 2014)

Among 25 biggest Oil Corporation in terms of production, 18 are represent National Oil Companies. Thus, NOCs play a significant role in the economy, energy security and maintaining stability in the oil and gas markets. (Marcel, 2012)

It is supposed, that the first National Oil Company appeared in Austria-Hungary in 1908, when private companies faced oversupply in the oil market. (McPherson, 2003) Emperor Franz Joseph approved the construction of a state-owned plant, capable to process more crude oil. It has led to stabilization in the market.

In 1914, the United Kingdom Government has invested £ 2.2 million in the purchase of 51% shares of the company «Anglo-Persian Oil Company» (later «British Petroleum»). It was a "passive" investment, which did not allow taking control over the management. The main target of this decision was to ensure the security of hydrocarbon supplies during the First World War, as the latest generation of warships worked on oil. Winston Churchill, who was the First Lord of the Admiralty in that time, assumed oil as strategic recourse and wanted Admiralty to become an independent owner and supplier of liquid fuels. (Al-Moneef, 1998).

Huge shift in oil production occurred in 1930th when huge reserves were found in Middle East countries: 1932 – Bahrain; 1938 - Kuwait and Saudi Arabia. These events marked a geographical shift in the global industry of oil production. International corporations have formed a private consortium to control oil production in the region, including Saudi Arabia, where five US companies founded “Aramco Oil Company” (Jaffe, 2007). Since that time US started to import oil instead of producing. It happened despite well-developed industry of oil production within the country.

During the period from 1948 to 1972, seven out of ten barrels of new oil fields (ie, 70% of new oil reserves) were produced in the Middle East. This strengthened the contractual positions of oil-producing countries in relation to the private international oil corporations. In 1959, the largest oil-producing countries arranged a meeting in Cairo, where were concluded

a "Gentleman's agreement" (Grayson, 1981). The agreement included the recommendation to establish national oil companies to provide direct government involvement in the oil industry. These recommendations were implemented only after a few years. The concession agreements that were used in that times included royalty payments to the owners of resources and a 50% tax on income (fifty-fifty profit sharing) (McPherson, 2003). The price policy, which were used by the private companies, was unfair. They used reference prices instead of market prices. After the unilaterally reducing of the reference prices twice (in 1959 and in 1960), the majority of oil-producing countries started to look for alternative ways to protect their national interests. As a result, the Organization of Petroleum Exporting Countries (OPEC) was created in 1960. The five founding countries were Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Later Qatar (1961), Indonesia and Libya (1962), UAE (1967), Nigeria (1971), Ecuador (1973), Gabon (1975) and Angola (2007) joined the organization (Marcel, 2012).

It dramatically changed the ownership structure in the global oil and gas industry. The share of public sector in the oil industry of OPEC countries has grown from 9 to 62% in the extraction, from 14 to 24% in oil refining and from 11 to 21% in marketing during the period from 1963 to 1973. (Grayson, 1981)

During 1980th in developed countries, started processes reverse the nationalization. Governments of these countries have taken steps towards liberalization and privatization. After the collapse of the Soviet Union, new regions were open to foreign investment.

Nowadays, the situation is very heterogeneous. In some of the oil producing countries, like Mexica and Indonesia, were implemented significant institutional reforms aimed to increase foreign participation in the national oil and gas industry. On the other hand, due to high oil prices and large hydrocarbon demand from Asian countries have strengthened the bargaining position of the oil-producing countries and increased their political weight (BP.com, 2016). These processes led to further nationalization or the creation of national oil companies in new oil-bearing regions (such as Chad and Uganda). Moreover, a number of oil exporters in developing regions (primarily China and India) began to provide strong support for their national oil companies to acquire oil assets abroad.

Role of National Oil Companies

Nowadays, National Oil Companies operate in various forms. They can act as monopolists or participate in a competitive market; can manage the assets, or be in the form of financial holding companies. They are significantly different with a nature of specialization in the petroleum value chain, the degree of commercialization, internationalization of production

levels. Nevertheless, in most of the cases NOCs have a dominant position in the domestic oil and gas markets. There are several reasons, why do governments favour national oil companies as instead of liberal management model. (Yergin, 2002.)

Historical context. In many countries, the formation of the national oil companies has coincided with a wave of nationalization of assets. Private oil companies were assumed as agents of foreign states and opponents of the national interests. (Grayson, 1981.)

Political Instrument. Political importance of oil and gas industry was obvious since the beginning of its development. The oil and gas wealth has always been used to provide financial, political and military power. Direct state control over the sector enhanced the stability of the country and its negotiating positions. State participation in the oil and gas industry provides the government control over the value chain, including technical and commercial solutions, efficient development of natural resources, pricing policies and subsidies, the problems of employment and others (Robinson, 1993).

Effective field development. Experts note that the participation of powerful national oil companies contributes to the overall efficiency and growth in the value created by the industry. NOCs reduce the level of information asymmetry with respect to the private companies, which leads to more effective regulation of the market and reduces the risk of appropriation of natural resource rents. National oil companies help the state get first-hand information about financial and operational business environment of oil companies. In addition, they set certain guidelines and criteria by which the state can assess the performance of private oil companies. (Stevens, 2004)

Oil rent maximization. Resource rent from petroleum operations is mainly determined by two variables: the total value of the rent received by the oil industry, and the relative share of the state in it, as well as its agent - the national oil company (Auty, 2006). With an efficient financial system (the main mechanism for getting oil rents) the state is trying to find a balance between short-term monetary objectives and long-term strategy of attracting additional investments in the sector, which determine the amount of the future tax base.

Nevertheless, the government often seeks to obtain the highest possible share of the economic rent and prevents high returns on investment for private companies. Efficient contractual and financial conditions are able to ensure the development of the oil and gas sector and to obtain value added. However, for the monitoring and management of private oil operations, administrative and expert competence are required. Exactly these competencies in developing countries are often inadequate or absent. To compensate a lack of these competencies, countries are also seeking to create a national oil company. (Tordo, 2007)

Solution of socio-economic issues. NOCs can be used to achieve social and economic goals, such as increasing the number of jobs, the development of commercial and technical competencies, the creation of different types of infrastructure (schools, hospitals, roads, bridges, water systems, etc.), the redistribution of income by subsidized prices and the expansion of borrowing. (McPherson, 2003)

Thus, the operating of NOCs is closely related to the national interests of the state and serves primarily the achievement of economic and political goals, rather than simply maximizing corporate profits. This is the key feature of these companies - existing in a variety of social, political and economic conditions that determine their long-term strategy.

1.1.3. National Oil Companies Internationalization trends

It may seem, that International Oil Companies have assets worldwide (Chevron – 180 countries; Shell – 130 countries), and National Oil Companies do not “cross” the border of a state (BP.com, 2014). Actually, it is incorrect opinion. Scale of NOC’s international expansion is not comparable with IOC’s one, but it’s growing every year. Some of NOC have really great rates of extension: Petrobras was operating in 11 countries in 1997, and now - in 27 (Jaffe, 2014).

Sometimes it’s even easier for NOCs to provide internationalization than for IOCs. They are not burdened by prejudices and move toward countries, like Sudan or Burma, where companies from developed countries can’t work, because of foreign policy of their governments or democratic convictions (Van der Linde, 2012).

It happens that the host requires foreign investors to participate in social or regional projects. IOCs tend to reduce such kind of suggestions because of extra costs. Nevertheless, China's company CNPC (China National Petroleum Corporation) acquired PetroKazakhstan in 2005 for 4.18 billion of dollars and pledged to invest in the construction of railways and the electricity industry in Kazakhstan (cnpc.com, 2016).

In recent years, new term appeared INOC – International National Oil Company (Green, 2011). Companies of this type are competing with IOCs for leading positions in the industry. National Oil Companies try to pursue a policy of strengthening country's energy security, search for different sources of production / supply of hydrocarbons and / or markets. At the same time, they strengthen their competitive positions and ensure steady growth.

However, the internationalization process of National Oil Companies is not studied well. Most of the previous researches were more focused on single cases instead of the whole industry analysis. Therefore, we know that there are National Oil Companies, as CNPC, which actively internationalize by acquiring assets (cnpc.com, 2016), but there is lack of the overall understanding.

1.1.4. Asset acquisitions and Asset swaps in oil industry

As it was discussed previously, National Oil Companies owns huge reserves of hydrocarbon resources, and there is a fair question, why National Oil Companies need to buy assets abroad? There are a number of rational reasons, why oil companies invest in acquisition of new assets. Further major benefits are introduced.

Obtaining new knowledge

Most of the large oil companies are vertically integrated. It means that the company itself participate in all kind of activities of supply chain: Upstream (oil production), Midstream (transportation) and Downstream (marketing and refining). The obtaining of new assets across the supply chain is an extra source of unique knowledge. It's very crucial for National Oil Companies, which were mostly focused on production of crude oil, instead of processing and marketing (Tordo, 2011). The acquisition of new assets from undeveloped sector of supply chain can be a shift for the overall company's development. In addition, purchase of storage assets, for example, may provide relevant information regarding markets' demands, in particular in strategic locations near production or consumption hubs. It's another kind of knowledge, that can get from acquisition of new asset (Jaeggi 2010).

Diversity of assets

There is a well-known idiom "don't put all your eggs in one basket", which is actual to a business as well. To be successful and manage with possible risks, it's important for trading firms to limit the influence on certain commodities or countries. big-enough companies, that can allow to set diversified trading positions, can get a profit from diversification of assets in order to limit risks (Tordo, 2011). Economic actors can participate in diversification by operating in different geographic locations, by trading multiple groups of products or by involving into variety of levels from the supply chain (Jaeggi 2010). Using all measures discussed (acquiring and operating a variety of assets, in different locations and for distinct commodities), companies significantly reduce risks. For corporations, that already participate worldwide trading operations and have expertise in oil and gas products, the possible costs to set a new trading unit are lower in comparison with the profit that it can bring to the company. However, resources that are necessary to provide an integration and acquisition of physical assets has to be justified by the added-value in future.

Secure access to supply

It's very important for the economic actors to have a secure access to supply, in order to perform well. In energy industry, owning production assets is almost the only way to get a

guaranteed access to resources. Because of the unevenly distributed resources and their limit, there is a strong competition and market players have an opportunity not to give an access to the assets (Kaplinsky, 2010).

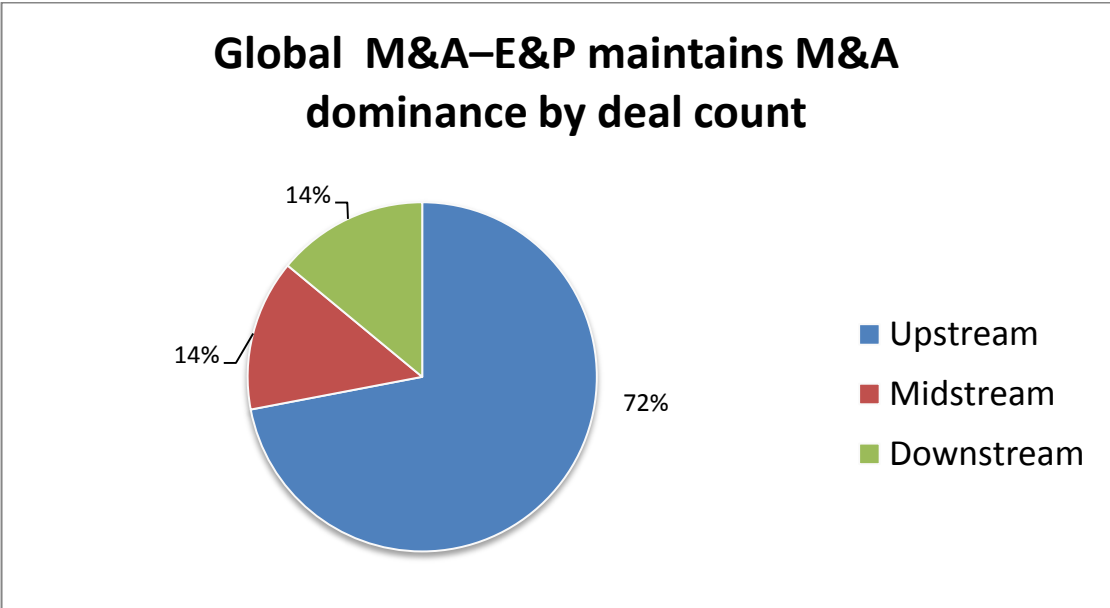
Strengthen optionality

World economic context have changed significantly in recent years. China used to have incredible economic growth, which now is slowing down, shale gas revolution in the United States changed the oil industry significantly (BP.com, 2016). Global economic conditions together with established trade flows are changing in a very quick manner, comparing with previous time, therefore companies have to react fast and to be flexible (Jaeggi 2010). With a help of logistical and production assets companies have a possibility to be on the same way with industrial and environment trends (MeerSMan, 2012). For such a large structure as a National Oil Company asset acquisition can be the most appropriate way to respond on this trends. As more options firms have, as more flexible they will be to take advantage of market opportunities.

Trend in assets acquisitions and assets swaps in oil and gas industry

M&A activity across the main oil and gas sectors has varied in intensity over the first part of 2015. In general, activity from the second part was stronger than the first ones (Delloite, 2016).

Figure 2. Global M&A–E&P maintains M&A dominance by deal count in 2015



Source: PLS Inc. and Derrick Petroleum Services Global Mergers & Acquisitions Database as of January 2016

As it's seen from the figure 2 most of the deals from oil and gas industry that took place in 2015 relate to Upstream assets. It can be explained by the activity of International Oil Companies, which try to expand their reserve base by acquiring oil and gas fields.

Moreover, the rapid downturn in oil prices since the second quarter of 2014 has led many companies, particularly in the upstream and oilfield services sectors, to embark on rapid adjustments of their cost base, their operational and development portfolios, and their activity focus (Deloitte, 2016).

2. THEORETICAL FRAMEWORK

2.1. Internationalization process

2.1.1. Motivation for internationalization

Before analysing existing theories of internationalization, it seems rational to assume motivation of companies to go international. The topic is very wide and have a special features, that correspond to particular industry, but it has to be addressed to a certain level in order to continue further.

One of the major reasons, why companies decide to start an international expansion, is to get an access to a new market and special resources. Moreover, it gives an opportunity to get a new knowledge and additional source of information, which can lead to a wider options of strategic moves that company can make operation both on domestic and foreign markets. (McDougall and Oviatt, 2003)

Knight and Cavusgi (1996) stated that of the motives to get a new knowledge, through internationalization process, is to build additional value creating-skills. Hill and Jain (2007) argued, that companies through internationalization improve finance performance, increasing profitability and rate of profit growth in extent, that is hard to reach for purely National companies.

Some scientist identify other internal and external factors that lead companies to internationalization. Due to Ohmae (1990) research, companies decide to internationalize according to external factors, to set a global operations for instance. On the other hand, increasing of company's profitability is an example of internal factor.

More general theories try to explain reasons of internationalization in a more detailed way. Dunning (1998) developed a theory according to which motivation for internationalization is divided into 4 categories:

- Market seeking;
- Resource seeking;
- Efficiency seeking;
- Strategic asset seeking.

According to Dunning work (2001), resource seeking and market seeking motives were dominating during first internationalization waves or for the companies which

internationalize for the first time. On the other hand, efficiency seeking and strategic asset seeking reasons suits to the companies which are more experienced and which have already started international operations.

Later, other researches stated that there is even more motives for internationalization. Some of them identified **networking** as one of the dominate drivers for international expansion in the developing environment. Dimitrators and Plakoyiannaki (2003) mentioned that the company get an access to resources and opportunities through collaborations with other companies. Masum and Fernandez (2008) gave a definition to a network as a set of interconnected business relationships in which firms relate to each other by exchanging different resources as information, knowledge, ideas and goods. Network theory used to be developed further, and it states that company internationalize more efficient through the help of partnership instead if using internal internationalization approach. Thus networks play a role of bridging mechanism for internationalization (Mitgwe, 2006).

2.1.2. Internationalization theories

There are a lot of theories that state a goal to explain the internationalization process. These theories can't escape the criticism due to their relativity and the uniqueness of each specific industry, which doesn't allow to generalize the approach. In this chapter several most widely known theories and models are assumed.

Enterprise internationalization is a kind of process to develop themselves from domestic enterprises into multinational corporation to actively participate in the international division of labor. Theories of internationalization have been developing since Adam Smith's times. By the way, he was one of the firsts scientist, who worked on this problem. Theory, that he developed, names "Absolute advantage" and it was first presented in his 1776 publication *An Inquiry into the Nature and Causes of the Wealth of Nations*. The main idea of the theory is that a nation exports those products, in the manufacture of which it is most effective. Further, other classic scientists continued developing theories of internationalization. In Table 2 they are represented with short description.

Table 2. Classic Theories of Internationalization

	Theory	Author	Short description
Classic Trade Theories	Absolute advantage	A. Smith	Nation exports those products, in the manufacture of which it is most effective (Smith, 1776)
	Comparative advantage	D. Ricardo	If a nation has a comparative advantage in the production of one product over another, it should specialize in the export of this product (Ricardo, 1817)
	Heckscher–Ohlin	E. Hecksher, B. Ohlin	Country will export goods that use its abundant factors intensively, and import goods that use its scarce factors intensively (Hecksher, 1933)

The Uppsala Internationalization Model

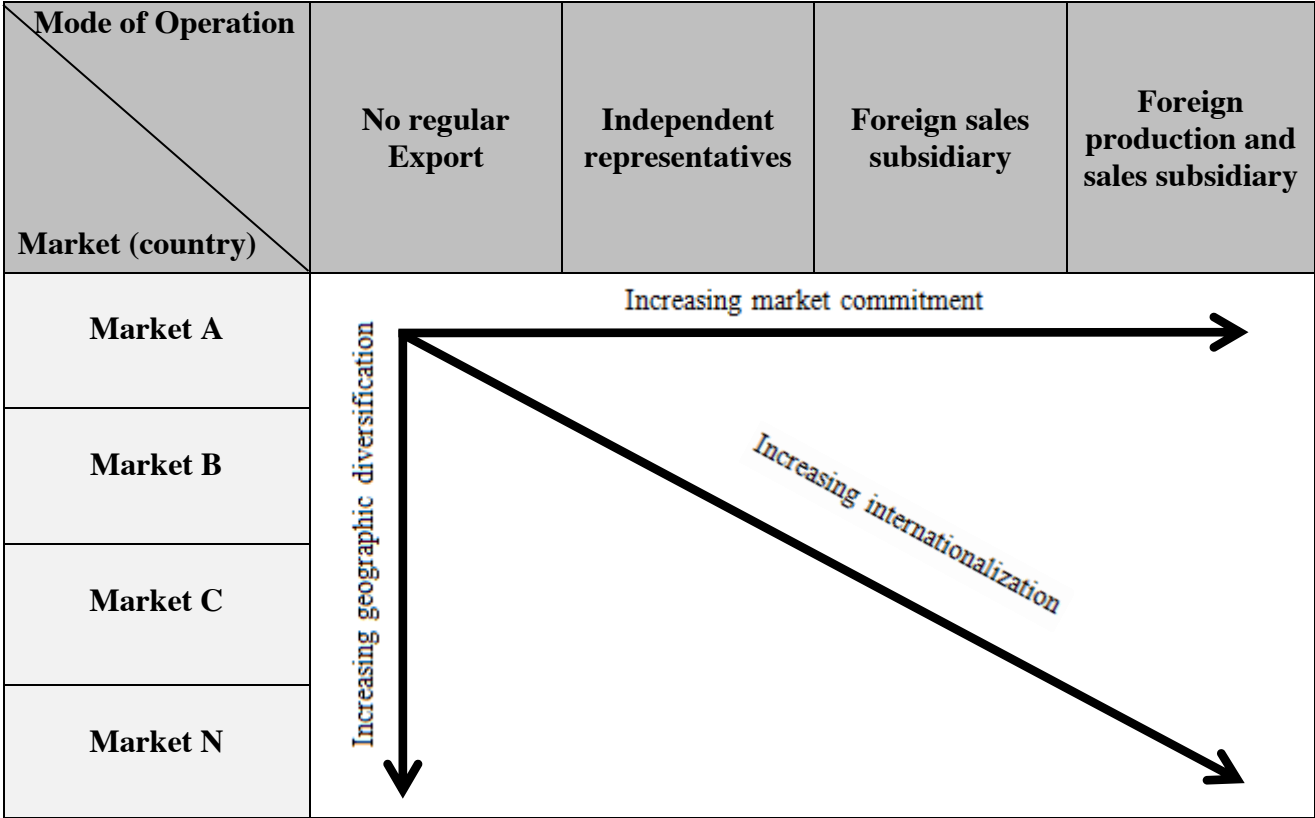
The scholars of Nordic Europe would not discuss the inward internationalization stage, only classify the four stages of enterprise internationalization development into outward internationalization.

Swedish scientists from Uppsala University (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) added a new vision on internationalization process for their times, which had a try to explain international involvement. The scientists thought that existing theories underestimate the issues of cultural differentiation and ignored the internal foundations needed so that companies could handle international activities. Thus, Johanson and Vahlne have introduced new model, which seemed to be independent and could explain the successive steps of internationalization (Johanson & Vahlne, 1977; 1990)

The Uppsala model was found on the basis of investigation of 4 European producers and was influenced by the works of Penrose (1959), Cyert & March (1963), Aharoni (1966) Vernon (1966) and others. The Uppsala Internationalization Model suggests 4 different steps of expanding on an international market, that cannot be assumed independently without company's background, market conditions and the market knowledge. (See Fig. 3 below)

- Step 1: No regular export activities (sporadic export);
- Step 2: Export via independent representative (export mode);
- Step 3: Establishment of a foreign sales subsidiary;
- Step 4: Foreign production/manufacturing. (Hollensen 2007)

Figure 3. Steps of The Uppsala Internationalization Model



During the research, they have identified that originally companies begin the expansion from a psychic nearby market. On this market, companies improve knowledge about the market and enhance control over resources. After this process, when actors become more experienced and acquired better resources, they enter into the more distance market. By market distance, they refer both to the cultural distance; as well the differences in language, politics, geographical and the difficulty to acquire knowledge and information from the market (Andersen, 1993). Then, usually companies try to enter a new market with a usage of export activities instead of the establishment of international sales subsidiary or international production.

In their research, they refer to Aharoni (1966) about the self-sufficiency of market knowledge and market commitment. As a consequence, Swedish scientists developed a matrix, that introduce the positive correlation between market knowledge and the commitment decisions. Moreover, it emphasized sequential development of market activities and its positive correlation to market commitment. The major explanation of the Uppsala model is that development of market knowledge has to lead to expand market commitment, and it works in both ways (Andersen, 1993).

However, some scientists are arguing that the stages model is not convenience, especially for transnational and emerging countries. On the other hand, Kalotay (2008) states that internationalization of National Oil Companies, especially Russian, is able to be explained by the Uppsala model, because all of them start with international trade (export of crude oil) and now they are at a stage, where they start to acquire assets and open subsidiaries.

One of the most known contribution to internationalization theory belongs to Dunning, with his *Electric Paradigm* (Dunning 2000). The main concept of Electing paradigm is that international company has to have a specific advantage over local firms, before it will engage in international production. This theory called *OLI-Paradigm* as well. Due to the OLI-Paradigm company needs to satisfy 3 conditions if it wants to go international:

- Ownership advantages;
- Location-Specific Variables;
- Internationalization-incentive advantages.

It could be mentioned, that the framework synthesizes *resource-based theory*, *location theory* and *transaction cost theory*. In further works (Dunning, 2001) the scientist re-evaluated his previous study. Dunning made an adjustment, that the OLI-Paradigm is not properly working in dynamic environment. One of the most significant criticism about OLI-

Paradigm was that the theory doesn't work well in special situations, for example during internationalization of Multinational Enterprises (Ramamurti, 2010). In some cases companies from emerging markets establish their wholly owned subsidiaries even without possession of an internationalization factor.

The REM model

Liuhto developed a new model in 2001 for analysing internationalization process of Russian National Companies (Liuhto, 2001). The model includes 3 dimensions, each of them complies the letter of the model's title:

- R – Reason for internationalization;
- E – environmental selection;
- M – Model choice.

The author states the framework is appropriated for other companies with government participation. Further model is assumed in a more detailed way.

R-factor can be deciphered as “reason of internationalization”, and sets the foundation of the REM model by answering the question “Why did the company decide to go international?”

E-factor is responsible for the “environmental selection” and gives an explanation why particular environment was chosen by the company. Previous authors stated that, the environment is more suitable term instead of a country or a location (Rugman and Verbeke, 1998). Nowadays national borders are disappearing because of free trade areas or economic and political alliances, for instance European Union or NAFTA (North American Free Trade Agreement). The factors that can influence on selection the environment are different (Dunning, 1998). They can be divided into two major categories: host and home environment policies. The restrictions from the home or host policies may lead to conflicts between the government and economic actor (Caves, 2007). Liuhto (2001) stated, that host environment policy has a significant influence on the of a firm decision to participate internationalization process or not.

M-factor is responsible for the entry model choice. It answers the question: “How the company is going to implement its internationalization?” Both M and E factors are interdependent, because a model choice connected with environment selection, and vice versa (Liuhto, 2001).

As we identified from the review of internationalization theory, there are two features of oil companies' internationalization. First of all, it can be described by the Uppsala model, because oil companies are natural exporters and they have to provide international trade, due to unevenly distributed resources. As we know from the industry review, National Oil Company exports huge amounts of crude oil (BP.com, 2016) and the next step for them, according to the Uppsala model (Aharoni, 1966), is to set foreign sales subsidies and foreign production facilities.

Entry model, that is used by the National Oil Company, is the REM model (Liuhto, 2001). This model is very appropriate to National Oil Companies, due to the fact that it takes into account host and home environmental factors. It's crucial for National Oil Companies, because the main shareholder is government. It means that for the company political relations of home country with the country of targeted market is as important as other factors.

After the review of internationalization strategies, we came closer to a research gap, between existing knowledge about asset acquisition approach used by National Oil Companies in accordance to the third and fourth steps (set foreign sales subsidies and foreign production facilities) (Aharoni, 1966) of the Uppsala Internationalization model.

2.2. Petroleum company value chain

The value chain of oil and gas industry consists of three major activities: upstream, midstream and downstream. The first one – upstream sector – is known as the exploration and production (E&P) sector. (epa.gov, 2016) After raw material is extracted and produced, it has to be transported and stored. This stage is commonly associated with midstream activities. Final stage of the supply chain of oil and gas industry is downstream activities. Through this phase oil and gas are refined into end-products and distributed to customers. Final products can be represented by gasoline or petrol, kerosene, jet fuel, diesel oil, heating oil, fuel oils, lubricants, waxes, asphalt, natural gas, and liquefied petroleum gas (LPG) as well as hundreds of petrochemicals (energypedia.info, 2015). Sometimes midstream and downstream activities are included in a one stage. Most of the NOCs used to be active in two first activities, but now the situation is different (Tordo, 2011). Companies that generate all activities of the supply chain are called “Vertically integrated”. Each stage has to be assumed in terms of assets.

Upstream: Exploration & Production

The first stage of the supply chain of oil companies is the stage of exploration and production. At first, Oil company has to find underground accumulations of resources and identify the potential of oil fields (epa.gov, 2016). This process that allows to determine the potential of an offshore requires the participation of educated, qualified engineers and modern technologies. Moreover, companies have to obtain licenses for exploration & production from governments (Tordo, 2011). Therefore, the exploration activities seems to be costly enough and risky, because the return on investment can't be guaranteed.

Midstream: Logistics & Storage

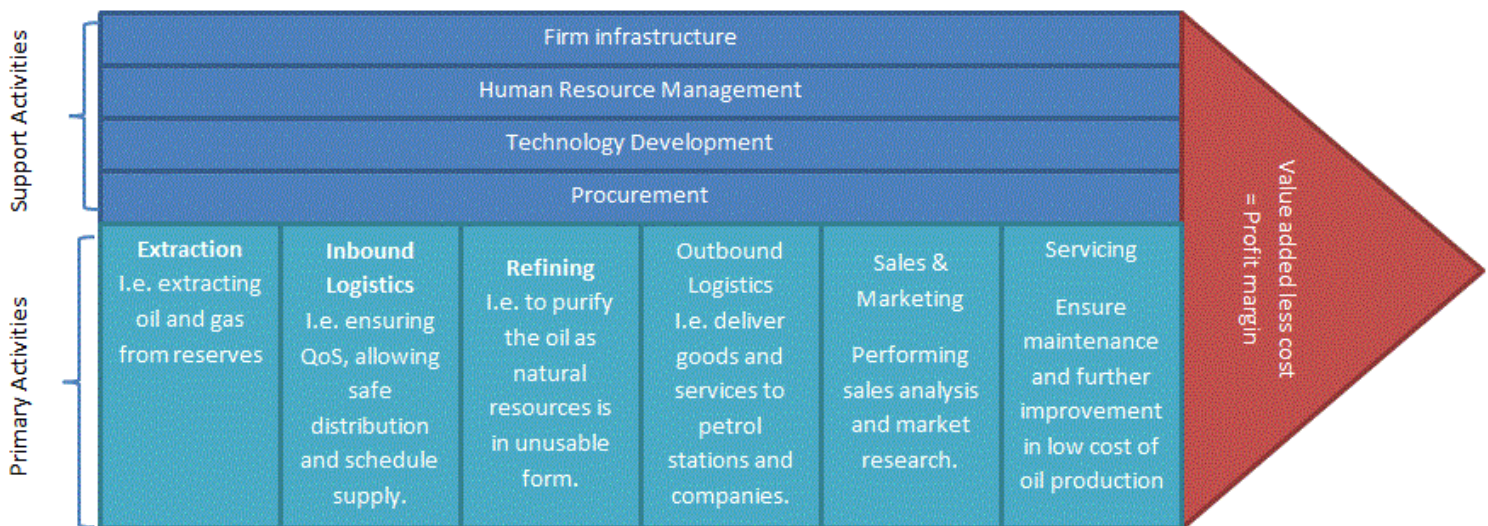
The midstream activities involve the transportation, storage, and wholesale marketing of crude or/and refined petroleum products (gasoline, chemicals etc.). Transportation can be implemented with a help of pipeline, rail, barge, oil tanker or truck (Energypedia.info, 2015). Transport systems as pipelines are irreplaceable when crude oil has to be moved from production sites to refineries or to bring different refined products to downstream distributors. More than that, pipelines is the most efficient way to deliver natural gas to downstream customers, such as local utilities from natural gas purification plants or aggregate networks (Tordo, 2011). The midstream activities are not rarely used as an element of the upstream and downstream sectors. For instance, the midstream sector can include natural gas processing facilities that clean raw gas materials. In addition, it can remove and produce elemental sulphur and natural gas liquids (NGL) as completed end-products.

Downstream: Transformation & Distribution

The downstream activities are mainly represented by processing of petroleum crude oil and by refining and purifying of raw gas materials. Another parts of downstream sector are marketing and distribution of petroleum products that are derived from crude oil and natural gas (Tordo, 2011). The downstream sector provide end-consumers with processed product, for instance gasoline or petrol, kerosene, jet fuel, diesel oil, heating oil, fuel oils, lubricants, waxes, asphalt, natural gas, and liquefied petroleum gas (LPG) as well as hundreds of petrochemicals (Al-Moneef, 1998).

On the figure (Figure 4.) above is detailed graphical representation of the petroleum value chain is introduced.

Figure 4. Value chain of Petroleum Company



Source: *energypedia.info*, 2015

2.3. Conclusion for Oil industry background and Theoretical framework

In the first chapter of the research, oil industry analysis was provided with the explanation of National Oil Companies' concept. In the second chapter, main internationalization theories and value chain of petroleum company were assumed.

As it was motioned in previous parts, National Oil Companies participate in internationalization process. It's natural for them, because oil and gas are main energy resource on the Planet and reserves of raw material are unevenly distributed around the world. Therefore, National Oil Companies at list provide international trade operations (trading of crude oil).

As we had known from the literature review of internationalization theories, internationalization of National Oil Companies is able to be explained by the Uppsala model, because all of them start with international trade (export of crude oil) and their further development is determined by staged structure. Next steps of the internationalization, according to Uppsala model, are associated with the establishment of foreign production and sales subsidiary. One way to implement the plan of this entry model is to acquire already existing assets.

Moreover, according to Dunning (1998) theory motivation for internationalization is divided into 4 categories:

- Market seeking;
- Resource seeking;
- Efficiency seeking;
- Strategic asset seeking.

As it's seen from the observation of internationalization theories, assets acquisitions may act as a part of internationalization strategy as well as motivation for internationalization. In addition, we had known, that National Oil Companies tend to internationalize by acquiring foreign assets (CNPC deal with PetroKazakhstan in 2005 for 4.18 billion of dollars). Therefore, the **research gap** of the study associated with fulfilling existing knowledge about asset acquisition approach used by National Oil Companies in their internationalization strategy and how does it affect the value chain of Petroleum Company. After analysis from first two chapter, **Thesis goal** can be formulated as is to identify a role of assets acquisitions and assets swaps in internationalization strategy of National Oil Companies.

To solve the problem posed in the study, firstly, it's necessary to find out what does motivate National Oil Companies to internationalize? Next step is to find out, what exactly National Oil Companies acquire during internationalization process. It can be made through analysis of the deals, that were provided during past years. Analysis of the deals together with analysis of companies' background would allow to make an adjustment about reasons, why do particular assets are acquired?

In framework of the research, it's also important to find out, which factors do influence the decision to acquire a particular asset? And finally, the impact of these acquisitions on companies' value chain has to be analysed. Thus, next research questions are formulated:

- Why do National Oil Companies tend to internationalize?
- What assets are acquired in the process of NOC internationalization?
- Why do National Oil Companies acquire particular types of foreign assets?
- What factors do influence the decision to acquire an asset abroad?
- How do these assets affect National Oil Companies' value chain?

3. RESEARCH METHODOLOGY

3.1. Research approach

3.1.1. Objectives of the study

All National Oil Companies internationalize to certain extent. At lists, each of them provides international trade operations (export of crude oil), but are they interested in the physical presence in foreign markets? The study is aimed to fulfil a research gap in the existing knowledge about asset acquisition approach used by National Oil Companies in their internationalization strategy. The purpose of this thesis is to identify a role of assets acquisitions and assets swaps in internationalization strategy of National Oil Companies.

3.1.2. Research questions

Relying on identified aim of the study, next research questions can be determined:

- Why do National Oil Companies tend to internationalize?
- What assets are acquired in the process of NOC internationalization?
- Why do National Oil Companies acquire particular types of foreign assets?
- What factors do influence the decision to acquire an asset abroad?
- How do these assets affect National Oil Companies' value chain?

Answers on these specific questions allow to get a comprehensive overview on the topic and help dig deeper into the issue, which has been discussed. The first question is answered with a help of secondary data from Literature review. Answer for the second question is going to be found through analysis of some National Oil Companies' deals history. Companies for investigating are going to be chosen through ranking analysis according to performance indicators. To answer this question secondary data is used as well.

Last three questions require both primary and secondary data to get fulfil answers. Secondary data is going to be drawn from the Literature review and sources from the reference list. Primary data is introduced by the information, which is synthesized from interviews with representatives of the company.

3.2. Process Description

3.2.1. Methods of study

This thesis is based on the investigation of National Oil Companies Internationalization strategy through asset acquisitions and asset swaps, which was analyzed in relation to the internationalization theory. Approaches that are used in a framework of this study correspond to strategic management.

The study includes several methods, that have been used for deep analysis of the topic. These methods of research widely used for data collection and analysis of further outcome:

- **Secondary data analysis** – Secondary data includes: record, scientific papers, researches, interviews, articles from specialized magazines, industry news digests etc (Vartanian, 2003). This particular method is very important from the first until the last step of the studying, because oil and gas industry is discussed a lot in all kinds of periodicals due to importance and relevance of the topic. However, there is not enough information on internationalization strategies used by National Oil Companies. Literature review gave an overall understanding of Oil and Gas industry, the internationalization process and Assets acquisitions trends inside the industry.
- **Case study method** – This method means a study of an individual unit stressing developmental factors in relation to environment. In General, case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has a little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003). In a framework of this study one of the research questions is “Why National Oil Companies acquire particular types of assets abroad?” This wide enough question has to help with understanding of motivation, that stands behind strategic decisions to acquire particular kinds of foreign assets. As a studied unit Russian PJSC Gazprom Neft is introduced. This company is a good example of National Oil Company, where the Russian Government indirectly is an owner (through the Gazprom). Gazprom Neft widely use internationalization through trading and assets acquisitions, therefore it makes the company relevant for this study.

- **Primary data analysis** – In order to get more deep understanding of Oil and Gas industry and NOCs internationalization approach, interview with the company representatives is going to be used. It's very useful method, when it's necessary to get an exclusive or inaccessible information about the company/industry (Glass, 1976). Interviews with the managers from the departments of strategic development and assets acquisitions have to give additional information about company's motives for internationalization and acquiring particular assets. In-depth interviews are going to be with a semi-structured character. Information from the interview is going to be revised and analysed

- .

3.2.2. Scope of the study

Internationalization of National Oil Companies by acquiring assets is very actual topic. For many years International Oil Companies were those, who acquired assets in emerging markets, expanding their geographical and economic coverage (Green, 2011). Nowadays, the tendency is shifting. According to previous studies, National Oil companies, achieved some progress, started to purchase assets in different countries (Lukoil, 2015).

The study is focusing on assets acquisitions of National Oil Companies in a framework of Internationalization strategy. In the first part of the study, next investigations are going to be provided. Ten companies from different countries are chosen for analysis of the deals that were provided by them in a last 5 years. By deals, we mean assets acquisitions or assets swaps that are made by National Oil Company on a territory of non-native country. The analysis of 10 different companies and their deals may identify trends in NOCs international acquisitions approaches or diversify them according to a strategy. Moreover, the analysis will help to answer the question: “What assets are acquired in the process of NOC internationalization?”

In the second part of the thesis, case of Gazprom Neft, as an example of National Oil Company, is assumed. Aim of this case study is to identify rational behind the companies’ decision to acquire assets in foreign countries and to find out the factors, that influence the decision making process of acquiring an asset. In a framework of the study, in-depth interview with experts from the company is provided. Experts represent 2 departments, that are relevant for this study: Strategic and Mergers and Acquisitions departments. Further, information about the experts is introduced:

Table 3. Brief information about the experts

Company	Contact Person	Department	Position
Gazprom Neft	Sergey Kolokolov	Department of mergers and acquisitions	Head of the Department
Gazprom Neft	Alexander Sulin	Strategic Department	Senior Manager

The questions that are going to direct interviews with companies’ representatives are introduced in Appendix 1.

3.2.3. Limitations of the study

- Deals of 10 companies are analysed. It's not enough to be sure that identified trends are fair for the whole industry;
- Analysis of companies' deals require an investigation of huge amount of data. It's impossible to describe all deals in details, that's why companies approaches of internationalization through assets acquisitions and assets swaps is going to be generalized;
- Case of only one company was assumed in details. It could be more relevant to get interviews from representatives of other National Oil Companies. Inside information from managers of different companies and countries could identify more general principles that rule National Oil Companies' internationalization approach;
- There may be some subjectivism from the research, because the conclusions that were made are based on the qualitative data.

4. EMPIRICAL STUDY

4.1. NOCs asset deals analysis

To choose particular companies for deals investigation, ranking analysis through performance indicators has to be provided. There are a list of indicators that measure a performance of oil companies. Some of them are usual financial indicators, that are common to many industries, such as Market Value, Market Capitalization, EBITDA, ROE, Revenue etc. However, It's not always possible to get this kind of financial information about National Oil Companies. The reason is that most of them are not public. As it was mentioned previously, energy recourses are strategic one for any country, and NOCs in many cases are not able to trust shares of the company to foreign players. Saudi Aramco is a 100% state-owned company (Al-Dhubaib, 2008). But also, there are exceptions, for example Gazprom. It is strongly marked National Oil Company, which shares can be purchased on open market. However, the major package of shares belongs to government. Thus, it is rather convenience to use specific indicators for ranking.

Professors of Ufa State Oil Technical University, Burenina Irina and Varakina Valeria, have suggested a union the single indicator system of performance assessment of vertically integrated oil enterprises. This KPI system consists of four dimensions (Berunina. 2013):

1. Basic Exploration and Production KPIs. It includes: Proven reserves, Production level, Reserve Live Index etc. Overall, the category includes 16 indicators;
2. Basic KPIs of Refining and Petrochemicals segment. Examples, Primary amount of oil refining, Oil refining depth, Percentage of light oil produced etc. The category includes 10 indicators;
3. Basic KPIs of Product realization segment. It includes: Amount of oil supplied, Amount of crude oil exported, Amount of sales etc. The category includes 13 indicators;
4. Basic KPIs of Corporate management Examples, Revenue from sales, Revenue of sales from refined products, COGS etc. The category includes 13 indicators.

The system is very detailed. Not all companies are able to represent a value of each indicator despite they are public. However, in frames of this study it's not necessary to provide such a deep analysis of companies for ranking. Taking into account, that not all

National Oil Companies give a financial data, it's obvious that the indicator has to be chosen from the list of available data.

The most representative indicators are from the Exploration and Production group. Majority of indicators of this group are based on the level of a company production. Moreover, It shows the market share of a company indirectly. The ranging, which is based on the level of production, will show the most successful companies and further analysis of their deals will reflect main trends in the industry.

According to methodology of ranking analysis, National Oil Companies are going to be assumed. Data that is represented in the Table 4 includes crude oil, lease condensate, natural gas plant liquids, and refinery processing gain (Forbes, 2015) and corresponds to year 2015.

Table 4. Ranking analysis of NOCs based on the level of production

Name of a company	Level of production per day (millions of barrels, year 2015)
Saudi Aramco	12
Gazprom	8,3
National Iranian Oil Co.	6
Rosneft	4,7
CNPC	4
Pemex	3,6
Kuwait Petroleum Corp.	3,4
Abu Dhabi National Oil Co.	3,1
Petrobras	2,4
Qatar Petroleum	2,4
Sonatrach	2,2
Iraqi Oil Ministry	2,1
Statoil	2
Petroleos de Venezuela	2
Eni	1,8
Sinopec	1,6
Nigerian National Petroleum	1,4
Petronas	1,4

Source: Forbes, 2015

To solve the problems of this study, it's enough to analyze 10 out of the list of biggest producers. First ten companies in terms of hydrocarbons production are the following: Saudi Aramco, Gazprom, National Iranian Oil Company, Rosneft, CNPC, Pemex, Kuwait Petroleum Corporation, Abu Dhabi National Oil Corporation, Petrobras and Qatar Petroleum.

Considering problems with searching for data about National Iranian Oil Company, Sonatrach and Iraqi Oil Ministry, Statoil was included into analysis. Thus, the final list of companies that are going to be analysed consists of Saudi Aramco, Gazprom, Rosneft, CNPC, Pemex, Kuwait Petroleum Corporation, Abu Dhabi National Oil Corporation, Petrobras, Qatar Petroleum and Statoil. These companies are marked with a green light in the Table 5.

The sample of companies is well diversified. There are companies from different geographical regions: Northern Europe, Middle East, South and Latin America, and Russia. National Oil Companies are representing countries with different types of Government systems: presidential and parliamentary republics, constitutional monarchy, absolutely monarchy, one-party parliamentary republic; and different economic systems: capitalist and mixed. Thus, these companies are developing in very different conditions, and common characteristics in internalization strategies through asset acquisitions and asset swaps will represent real trends into the industry.

Saudi Aramco

Saudi Aramco is the biggest National Oil Company in terms of the level of production and proven reserves. Headquarter is located in Dhahran. It was found in 1933 as a joint venture between Saudi government and US company Standard Oil of California (saudiaramco.com, 2016).

Saudi Aramco controls fields with oil reserves value 260 billion barrels (99% of the reserves of Saudi Arabia), which is about a quarter of the world's proven oil reserves (saudiaramco.com, 2016). It has a great influence in OPEC. The company controls the production of natural gas in the country, owns modern refineries and gas plants. The company has branch offices, joint ventures and subsidiaries in China, Japan, the Philippines, Republic of Korea, Singapore, the United Arab Emirates, the US and the UK. The company owns a modern fleet of supertankers.

In the beginning of 2016, the company announced plans for a possible privatization of through an IPO process (saudiaramco.com, 2016). Some experts think that it would allow Saudi Aramco to become one of the largest companies in the world by market capitalization, overtaking US Apple. Estimated value of the company, according to an independent oil analyst Mohammed al- Sabban, who previously worked as a senior adviser to the Saudi oil ministry, is 10 trillion of dollars (saudiaramco.com, 2016).

In Table 5 deals, that were provided by the company for the last 5 years, are represented.

From the list of deals those are relevant, where Saudi Aramco acted as an Acquirer. In Table 2 such kind of deals are marked with a green color.

- Lanxess Aktiengesellschaft (LANXESS) is a German company (lanxess.com, 2016) with headquarter in Cologne. Lanxess AG and Saudi Arabian Oil Co. have formed a 2.75 billion-euro (\$3.1 billion) venture, where each side gets a 50 percent share. Before the deal, Lanxess AG had some problems with an access to raw material, but now both companies have gains. Saudi Aramco got an assets in Europe, where it's able to produce high quality rubber petroleum products (saudiaramco.com, 2016);
- In June 24, 2015 Saudi Aramco acquired increase a share in joint venture with Lukoil. The asset is located in Saudi Arabia, thus it can't be assumed as an act of internationalization; (dp.ru, 2015)
- Saudi Aramco invested \$25 million in ConXtech, a leader in construction technology. The capital was used to build additional fulfillment capacity, and to expand into new geographies and vertical markets (saudiaramco.com, 2016).
- S-Oil Corp. is the second largest oil company in South Korea. It is engaged in oil refining and petrochemical products production. In 2014, Saudi Aramco \$2 billion stake in S-Oil Corp (saudiaramco.com, 2016).
- Zilift Ltd produces engineering equipment for oil extraction. In 2013, subsidiary of Saudi Aramco, Saudi Aramco Energy Ventures, made an investment in Zilift Ltd (saudiaramco.com, 2016).
- In 2013, Saudi Aramco Energy Ventures invested into the Norway technology company Sekal. The company produces software for real-time monitoring and drilling automation (saudiaramco.com, 2016).

Analysis of recent deals shows, that Saudi Aramco implements a particular internationalization strategy by acquiring new assets. Taking into account, that it's the biggest oil company in terms of reserves, Saudi Aramco is not interested in extension of resource base. However, the company invests in development of modern technologies to increase an efficiency of drilling and extracting. More than that, accusations of Lanxess S-Oil Corp. shares shows, that Saudi Aramco wishes to develop processes of oil refinery and to conquer new markets: European and Asian.

Gazprom

Gazprom is Russian Multinational corporation, that (Evseeva, 2015.), engaged in exploration, production, transportation, storage, processing and sale of gas, gas condensate

and oil, as well as the production and marketing of heat and electric power, banking and media structures. The largest company in Russia (Expert.ru, 2015), the largest gas company in the world, has the most extensive gas transmission system (more than 160 000 km). Is the global industry leader. (Forbes.com, 2016).

According to the rating of Forbes, "Gazprom" in 2011 was the most profitable company in the world (ng.ru, 2012). Gazprom became National Oil Company in 2004, when government reached amount of shares to 50%.

The company has assets in more than 25 countries. Most of them are located in Europe, but company also participated projects in Venezuela, India, Iraq etc. For the last 5 years, Gazprom participated in more 26 international deals (see Appendices, table 6).

The most recent one is with **Wintershall Holding**. As a result of the deal, Gazprom has increased its presence in European. The company got 100% of shares of next gas trading and storage companies:

- WINGAS;
- WIEH;
- WIEE.

Also Gazprom has received a 50 per cent stake in WINZ. This company is focused on hydrocarbon exploration and production in the North Sea.

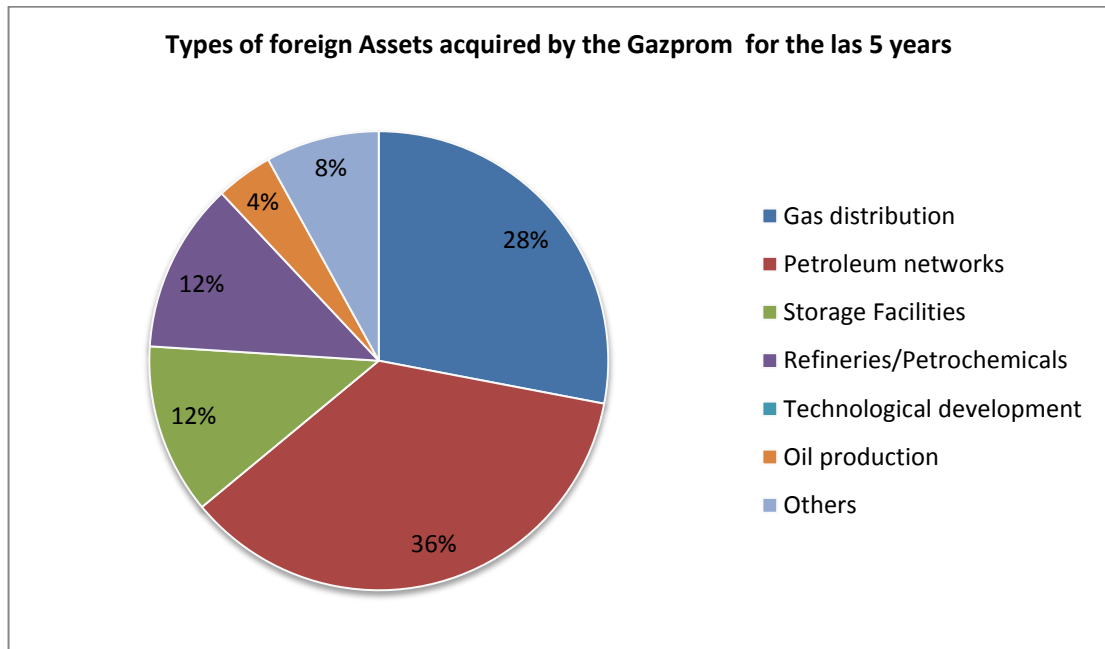
In frames of this deal, Wintershall has obtained 25.01 % in the project for developing Blocks 4A and 5A in the Achimov deposits of gas and condensate field, that are located in Urengoy. (gazprom.com, 2016)

Another important date for Gazprom is 24 April, 2015. In that day, GAZPROM Germania GmbH expanded its natural gas filling stations network. The agreement was signed between GAZPROM Germania and German utility EnBW Energie Baden-Württemberg AG (EnBW). The document implied, that GAZPROM Germania purchase four natural gas filling stations in Stuttgart and Nagold from EnBW on 1 May 2015. (gazprom.com, 2016)

Gazprom has made less deals in last 2 years comparing (see table 3) to previous 3. In 2012 Gazprom implemented great expansion on the South-East European Market (Bulgaria, Romania, Serbia, Hungary), acquiring vertical integrated oil company NIS and different networks of petroleum stations.

In general, Gazprom internationalization strategy is oriented on acquiring downstream assets. Next figure (see figure 5) illustrates the distribution of deals' characters.

Figure 5. Types of foreign Assets acquired by the Gazprom in terms of deals number for the last 5 years



Source: the figure was constructed by the author on the basis of deals data from Eiken system

Rosneft

Rosneft is an integrated oil company majority owned by the Government of Russia. Rosneft is headquartered in Moscow's. Rosneft became Russia's leading extraction and refinement company after purchasing assets of former oil giant Yukos at state-run auctions. In March 2013, Rosneft became the largest publicly traded oil company, after buying TNK-BP.

Rosneft provides very “aggressive acquisition strategy”. From the year 2011 till now, the company participated in more than 250 deals of assets acquisition. Most of these deals were made with Russian companies, however, Rosneft actively purchase foreign assets. It’s not efficient to describe every deal, that the company has made, but the most significant ones are going to be discussed.

- In March, 2016, Rosneft reached a preliminary agreement to buy 49 per cent stake in Essar Oil. Rosneft has concluded due diligence of Essar Oil, which operates the country's second biggest private sector oil refinery at Vadinar in Gujarat, India (Rosneft.com, 2016);

- In June, 2015, Rosneft acquired 30% in 30 percent stake in a subsidiary of China National Chemical Corporation (ChemChina), Rosneft said in a statement (Rosneft.com, 2015);
- In December, 2015, Rosneft and Total completed the deal where Rosneft purchased transaction concerning the 66.67% share in AET-Raffineriebeteiligungsgesellschaft mbH, representing a 16.67% effecient share in PCK Raffinerie GmbH. The deal represents a natural element of Rosneft strategy aimed at strengthening its presence in the key European market, one step further along the added value chain (Reuters Africa, 2014).
- In July, 2014, President of Rosneft and Vice-President Weatherford International plc. for Russia Lance Marklinger: Igor Sechin and Vincent Dewof signed an agreement for the purchuase of Rosneft land drilling and workover assets of Weatherford in Russia and Venezuela (Rosneft.com, 2014).

As it seems from the analysis, Rosneft acquire different types of assets all over the world: from offshore fields in Venezuela till refineries in India and China. The company wants to reach the global vertical integration, and provides it's internationalization strategy through acquisitions and creating of subsidiaries.

CNPC

China National Petroleum Corporation (CNPC) is a Chinese state-owned oil and gas corporation and the largest integrated energy company in China. Its headquarters are in Dongcheng District, Beijing.

China doesn't have a big oil and gas reserves, comparing to countries like Russia, Saudi Arabia and Venezuela, but the country is the biggest energy consumer in the world. Therefore, China has to provide energy security. Due to the lack of hydrocarbon resources on the territory of the country, China acquire assets all over the world through the National Oil Company CNPC. Further significant deals are represented:

- In September, 2014, CNPC provided a deal with total amount of CN \$ 1.184 billion with Athabasca Oil Corp. of oil sands project. The transaction is part of CNPC's acquisition of two oil sands projects:
 - the MacKay River site and
 - the Dover project in Alberta Province

that CNPC's Phoenix Energy signed an agreement for in 2009. The stated price was accounted to CN\$ 3.9 billion to be paid in two phases (CaixinOnline, 2014);

- In September, 2013 very important deal for CNPC was made. Chinese President Xi Jinping signed an agreement with Kazakhstan, that gave China a stake in giant Kashagan oil project. A package of oil and gas deals included on building an oil refinery in Kazakhstan and accounted to \$30 billion (CNPC.com, 2013);
- In July, 2013, Eni and China National Petroleum Corporation ("CNPC") have concluded Eni's sale to CNPC of 28.57% of Eni East Africa's shares, owner of a 70% interest in Area 4, located off the coast of Mozambique. Through this deal, CNPC acquires a stake in Eni East Africa which equates to a 20% indirect participation in Area 4. Eni remains the indirect owner of the 50% participation owned by Eni East Africa. The remaining shares in Area 4 are held by Empresa Nacional de Hidrocarbonetos de Mozambique (ENH, 10%), Kogas (10%) and Galp Energia (10%) (Eni OJSC, 2013).
- In December, 2012, PetroChina has agreed a deal to buy BHP Billiton's stake in the Browse liquefied natural gas (LNG) project in Western Australia (CNPC.com, 2012).

Pemex

Petróleos Mexicanos, that translates as Mexican Petroleums and better known as Pemex, is the Mexican national petroleum company. It founded in 1938 by nationalization or expropriation of all private, foreign, and domestic companies at that time in the country (Pemex.com, 2016).

Pemex is focused on exploration and extraction projects. It generates approximately 2.5 million barrels of oil per day and about 6 million of cubic feet of natural gas.

Comparing to Gazprom, CNPC and Rosneft, Pemex is not as aggressive in its acquisition strategy (see table 7), It has provided just 4 International deals for the 5 years period with 3 companies.

Pemex acquired 4,62 % of shares in Argentinian vertically integrated Oil Company YPF. In 2013 It has signed a deal to acquire a 51 percent stake in a Spanish shipyard, a move it is aimed for building specialized tankers for the state oil monopoly as well as helping speed up the modernization of its fleet (Pemex.com, 2016).

Pemex's internationalization experience is quite poor. The company do not acquire assets on regular, but an acquisition of YPF shares in 2011 might be a first step to expand on new markets.

Kuwait Petroleum Corporation

Kuwait Petroleum Corporation is a national oil company from Kuwait. Kuwait Petroleum Corporation operates through all the activities from the Petroleum supply chain (exploration, production, petrochemicals, refining, marketing, and transportation). Kuwait Petroleum Corporation produces approximately 7% crude oil in the World. Kuwait Petroleum (kpc.com, 2015)

Production of the company is sold in some countries under a subsidiary's name Q8. For instance, in West Europe, Q8 has a network that consists of 4,400 service stations across six countries (Italy, Denmark, Belgium, the Netherlands, Luxembourg and, in Sweden).

In the Benelux, Kuwait Petroleum has a refinery in Europoort, Rotterdam, and is a partner in the Maasvlakte Olie Terminal, and runs 146 gas stations in the Netherlands. There are 404 Q8 stations in Belgium (kpc.com, 2016).

The company continues acquiring of foreign assets. For example, in 2014, Kuwait Petroleum Corporation acquired Alberta's Duvernay shale field in U.S. (kpc.com, 2016). Therefore, the company wants to fit the global trends of shale oil and gas production. On the other hand, it strengthens positions on markets, where the company had been already operating. It's proved by the acquisition of Shell petroleum network in Italy. But amount of deals is not as big, for the last 5 years, company has provided 8 international deals. Company has an election acquisition strategy.

Abu Dhabi National Oil Co.

The Abu Dhabi National Oil Company (ADNOC) is the National Oil Company of the United Arab Emirates (UAE). ADNOC operates in all sectors of the oil and gas industry, including production (drilling on land and at sea), technical support work, transportation, distribution of oil and gas products. It holds the seventh-largest proved reserves of oil in the world at 97.8 billion barrels, and produce more than 2 million barrels of crude oil per day (adnoc.ae, 2016).

Despite great reserves and generated volumes of oil produced, ADNOC doesn't acquire other assets. Moreover, It doesn't acquire foreign assets at all (see Table 9).

Petrobras

Petróleo Brasileiro S.A., more commonly known as simply Petrobras, is a semi-public Brazilian multinational corporation in the petroleum industry headquartered in Rio de Janeiro, Brazil.

Analysis of recent deals showed, that there were no foreign asset acquisitions during last 5 years, but it doesn't mean, that the company doesn't internationalize. It has a subsidiary in many countries: Argentina, Bolivia, Chile, Colombia, Venezuela, Paraguay, and Uruguay. Moreover, It used to acquire, as an example, in 2008, Petrobras acquired a share in Valero Energy Corp-Refinery (Petrobras.com, 2016).

Qatar Petroleum

Qatar Petroleum (QP) is a National Oil Company from Qatar. The activities of Qatar Petroleum are represented in all sectors of oil industry: petroleum exploration, production, petrochemicals, refining, marketing, and transportation. Currently it is the third largest oil company in the world by oil and gas reserves (Statista.com, 2016).

Assets acquired during last five years:

- CQ Energy Canada Partnership or CQE, the joint venture between Centrica plc and Qatar Petroleum International, has agreed to acquire a package of natural gas assets in the Foothills region of Alberta from Shell Canada Energy for C\$50 million or 27 million pounds. As part of the transaction Shell also received CQE's interest in the Burnt Timber gas processing plant and its interest in the Waterton undeveloped lands in South West Alberta (Bloomberg.com, 2015).
- Block BC-10, Parque das Conchas, a share of the upstream project, was sold by Shell to Qatar Petroleum for approximately US \$1 billion. Currently, BC-10 is producing approximately 50,000 boe/d. Since coming on-stream in 2009, BC-10 has produced more than 80 million barrels of oil equivalent (boe). Phase 2 of the project, to tie-in the Argonauta O-North field, came online on October 1st 2013, with an expected peak production of 35,000 boe per day. The final investment decision for Phase 3 of the BC-10 project was taken in July 2013 and once online is expected to reach a peak production of 28,000 (qp.com, 2016).
- Qatar's acquisition of a 25 percent stake in Greece's Heron II. Qatar is investing in energy assets abroad after its own LNG exports leveled off amid a moratorium on further development of the country's North Field, the world's largest gas reservoir. As the biggest LNG supplier to Europe, Qatar already supplies the gas used to power electric generation plants across the continent. An investment in the power

sector would allow the country to increase its earnings from the delivery of that energy to gas importers (qp.com, 2016).

- Acquiring of 15 % share of of Total E&P Congo. Present in the Republic of the Congo since 1968, Total E&P Congo is the country's leading oil producer, operating 10 of the 22 fields developed, and accounting for nearly 60% of national output. Total E&P Congo's equity production averaged 113,000 boe/d in 2012. Total E&P Congo has also launched the development of the Moho Nord field, consisting of the Moho-Bilondo Phase 1bis and Moho Nord projects, on the Moho-Bilondo license which it operates. First oil is expected in 2015, with output reaching 140,000 barrels of oil equivalent per day (boe/d) in 2017 (qp.com, 2016).

Statoil

Statoil is a Norwegian multinational oil and gas company headquartered in Stavanger, Norway. It is a fully integrated petroleum company with operations in thirty-six countries. Norway is one of the biggest gas exporter to North Europe region. However, Statoil used to exploit its fields for a long time, and Statoil faces the lack of resources. It makes Statoil to provide a wide assets acquisition strategy. Also, Statoil participate in many projects which are aimed to explore deposits on the Arctic shelf. Statoil deals are introduced further:

- In February, 2016, Statoil has entered into an agreement with Lundin Petroleum AB (Lundin Petroleum) to divest its entire 15 percent interest in the Edvard Grieg field for an increased shareholding in Lundin Petroleum. Statoil will through this transaction further strengthen its indirect exposure to core field development projects and growth assets on NCS. This includes the Statoil operated Johan Sverdrup field, a world class project with a break-even of less than USD 30 per barrel for phase (statoil.com, 2016);
- In October, 2015, Statoil acquired First Oil's 24% equity share in the UK licence for the Alfa Sentral field for USD 15 million. Through this transaction Statoil has taken a 24% interest in UK Continental Shelf (UKCS) licence P312 which, with licence PL046 on the NCS, comprises the Alfa Sentral field. Statoil is the operator in PL046 with a 62% holding (statoil.com, 2015).
- In 2014, Statoil and the Thai exploration and production company PTTEP have signed an agreement to divide their respective interests in the Kai Kos Dehseh (KKD) oil sands project in Alberta, Canada (statoil.com, 2014).

4.2. Gazprom Neft case

Gazprom Neft is Russian National Oil Company, that was founded in 1995. The company is the fourth largest oil producer in Russia and ranked third according to refining throughput. It is a subsidiary of Gazprom, which owns about 96% of its shares. The company is registered and headquartered in St. Petersburg. In 2014, Gazprom Neft has been a leader among the other oil and gas companies in the industry in terms of growth of production in physical terms, increasing production by more than 4 million tons to 66.3 million tons per year (+6.4% of the results of the last year). More than that, Gazprom Neft is Russian leader in terms of average daily realization of fuel per Petroleum station (gazprom-neft.ru, 2016).

The company actively internationalize. Gazprom Neft implements 4 projects in Iraq and is involved in field development in Venezuela. Badra field reserves in the province of Wasit (Iraq) - more than 3 billion barrels. Production started in 2014. "Gazprom Neft" is the project operator. On the territory of Iraqi Kurdistan, "Gazprom Neft" is engaged in exploration of three blocks - Garmian, Jackal and Halabja. The share of Gazprom Neft in the draft Garmin 40%, Jackal and Halabja - 80% (gazprom-neft.ru, 2016). The reserves of the giant fields "Junin-6" in Venezuela reach nearly 11 billion barrels of oil. The share of the Company in the project is 8% .

Gazprom Neft actively internationalize through asset acquisitions as well. The largest foreign asset of Gazprom oil is a vertically integrated oil company NIS. NIS is engaged in exploration and production of oil and gas on the territory of Serbia, Angola, Bosnia and Herzegovina, Hungary. In 2008, an agreement between the governments of Russia and Serbia for the sale of the Serbian company "Oil Industry of Serbia" was signed in Moscow (gazprom-neft.ru, 2016). In 2011, the share of Gazprom Neft has risen to 56.15%. In 2009, Gazprom Neft has acquired plant for the production of oils and lubricants in Bari.

Thus, the company has a great international experience and continues to grow. As it's seen from the companies' background and analysis of internationalization strategies, Gazprom Neft entry model can be described with a help of the Uppsala model. As many National Oil Companies, Gazprom Neft started its internationalization through the trade. Then, the company entered psychic nearby market with a huge acquisition – NIS deal. Serbia is very close to Russia in accordance with cultural, religion, geographic, historical and political aspect. This acquisition allowed Gazprom Neft to obtain knowledge about European market and prepare for further expansion.

To make this research more reliable, an interview with the Head of the Department of mergers and acquisitions, Sergey Kolokolov was held. Next questions were considered:

1. What is the main goal of foreign assets acquisition?
2. How does the decision-making process about the acquisition of an asset within the organization look like?
3. What factors influence the choice of a particular asset for the acquisition in terms of the company's strategy?
4. What kind of assets are interested for the company (upstream / downstream - geography, type of mine / plant)?
5. How much it is important for the company to expand amount of reserves during assets acquisition process?
6. Assets are acquired from NOCs or IOCs?
7. What kind of deals were implemented during last 5 years?
8. Are there any general market trends? If yes, what kind are they?
9. Does the internationalization strategy has changed in terms of sanctions?
10. Does internationalization strategy changed under the low oil prices?

According to the interviewee's answers, the following results were obtained. Firstly, Gazprom neft is ruled by the strategy. There is written indicators, that company has to meet in the near future. For example, in current strategy (Strategy of Gazprom neft until 2025) it written, that the company has to:

- Production:
 - a) 100 million of oil annual production;
 - b) Reserve to Production Ratio – 20 years;
 - c) not less than 50% share of production from the fields in the early stages of development;
 - d) 10% share of production from overseas projects.**

It is stated in the strategy, how much exactly the company should produce oil in foreign projects. According to this objective, the Department of mergers and acquisitions plans further actions.

In category of "Refinery goals" it's written, that processing volume should be increased each year by 25-30 million tons by capacity **outside Russia**. It also drives management to acquire new assets abroad. Finally, in the Strategy it's mentioned, that sales to end consumers in Russia **and abroad** have to exceed 40 million tons per year. Thus, strategic

objectives of the company give a motivation to develop internationalization in both upstream and downstream sectors, and asset acquisitions help Company to reach these goals.

Decision making process

There are three ways how the company comes to idea of acquiring an asset:

- Suggestion from the companies' CEO, Top management or shareholders (government);
- A request from the particular department;
- Recommendations made by the consulting agency.

When the information about particular asset comes to the Department of mergers and acquisitions next mechanism starts to work. First of all, an "Expert group" makes an assessment of the asset. If experts are satisfied with conditions, capacities or any other characteristic of the asset, "Working group" starts to develop a deal. When deal details are figured out, "working group" presents a project to the investment Committee. It makes a final decision, if its verdict is positive, documents are signed.

Main factors that determine the choice of a particular asset are key performance indicators, however other factors, like geographical location, are also significant. In the Strategy mentioned first priority countries, with which it's desirable to work in. Next factors influence the choice of these particular countries:

- Factors of financial gains;
- Geographical proximity;
- Infrastructure availability;
- Political factor.

Government as a main Shareholder has a huge impact on the company's internationalization strategy. On the one hand it can be negative factor, because politics can influence profitable deals, as it has happened with sanctions and offshore projects, but on the other hand, if deal is prepared with a help of both governments it can lead to advantages, which can't be reached through market attitudes.

Answering the question: how much it is important for the company to expand amount of reserves during assets acquisition process? It was said, it's important for the company to develop balanced and to reach strategic objectives. If the Strategy requires to expand amount of reserves, Department of mergers and acquisitions tries to resolve this problem.

Assets are acquired from NOCs or IOCs?

There are no strong restrictions on with whom to collaborate. Gazprom Neft provided deals with both types of companies. But of course, If a Government as a shareholder of one party has a political collaboration with another Government, shareholder from another part, the transaction is much more efficient.

Are there any general market trends? If yes, what kind are they?

The interviewee is not familiar with this question.

Does the internationalization strategy has changed in terms of sanctions?

Answer was, that not as much. Western companies, with which Gazprom Neft have been collaborating, also suffer, and they don't want to lose such a good partner. That's why both sides try to bypass existing barriers.

Does internationalization strategy changed under the low oil prices?

Now Gazprom Neft is focusing not on acquiring new assets, but on reducing costs. However, it's not correct to discourse about changing of the Strategy, because strategic approach is a long-term approach, and oil prices can change in short-term perspective.

The same survey was provided with a manager from the Strategic Department of Gazprom Neft. However, the interview was more focused on a strategic approach of foreign assets acquisitions. Particularly, factors that influence the decision of acquiring of foreign asset were discussed more detailed. First of all, It was mentioned that decisions of providing the biggest deals in most of the cases comes from the main shareholder – government. For instance, initiative of acquiring of NIS came from the Government side, due to established a relationship of trust between Russia and Serbia. Government disposes instruments that allow to provide financial support of such kind of deals through the loans from state-owned financial institutes. Thus, *political factor* is one of the most important factors in a process of acquisition foreign assets. This factor may also include a political situation inside the country, it's well-known, that countries where there are large deposits of oil are subject to political instability. Thus, risks of possible political instability also are taken into account.

Another, very important factor is a *factor of financial gains*. There is a lot of ways how to measure possible gains from the deal, but the most common one is Return on investments (ROI). During the acquisition process both sides try to agree on the conditions of the transaction. If the price is too high for an asset, company is not likely to acquire it, however if the Government, as a main shareholder, lobbying the deal, company has no choice, but to provide it. The very last example is acquiring a refinery in Vietnam, where top political forces were involved in the transaction, but price was unfair. It confirms an idea that National

Oil Companies is a very important instrument of foreign policy. As a consequence, there is a list of countries with which it's desirable to work. In the strategy of the company these countries are called "the country's first parity".

Factor of *geographical proximity* is important as well. It has to be convenience for the company to operate in a country. For example, if there is an idea to acquire a refinery in Chile, it may be difficult to implement. Refinery needs regular oil supply for sustainable operating, but if there is no operated fields of the company in surrounding areas, the company would likely to refuse a deal. The influence of this factor is obvious during consideration NIS deal. Gazprom Neft extracted oil more than it could recycle in 2008, that's why company started to search for additional assets, that are able to cope with the processing capacity. NIS had a spare capacity and was located in South-East Europe, near the Russian border. By acquiring this company, Gazprom Neft not only gained extra capacity, but also increased international presence.

Another deal of acquiring assets in Iraq couldn't be implemented without availability of necessary infrastructure. Thus, another important factor is *Infrastructure availability*. Different geographical barriers, mountain ranges for instance, separate Iraq and Russia. Transportation of oil for further recycle by sea was too costly, but blocks Garmian, Jackal and Halabja were equipped by the necessary infrastructure to provide the processing and transportation. Infrastructure may include:

- Ports;
- Hubs;
- Oil and gas pipelines;
- Refineries;
- Utility infrastructure, etc.

4.3. Discussion of results

In order to discuss the results of the research and to come up with conclusions, it's useful to get back to a start point and refresh research questions in mind. In the beginning of the study, next research questions have been asked:

- Why do National Oil Companies tend to internationalize?
- What assets are acquired in the process of NOC internationalization?
- Why do National Oil Companies acquire particular types of foreign assets?
- What factors do influence the decision to acquire an asset abroad?
- How do these assets affect National Oil Companies' value chain?

The answer on the first question was found with a help of a Literature review and classical theories of internationalization. As it was discussed in previous chapters, companies tend to internationalize to get an access to a new market and special resources. National Oil Companies internationalize by their nature, because from the beginning of their existence they exported crude oil resources. Answer on this question can be combined with an answer on the question: *"Why do National Oil Companies acquire particular types of foreign assets?"* As it was found from the study, each company has special reasons to acquire particular types of resources. For example, China (CNPC) acquire assets to provide energy security for the country. Statoil participate international projects to expand resource base, due to depletion of own reserves. Companies like Rosneft and Gazprom wish to reach strategic assets, what is lead to global vertical integration. It corresponds the Dunning (1998) theory and Network approach. Some companies have just started their international acquisitions, and their deals are directed to get an access to a new market. For instance, Saudi Aramco, who has purchased a refinery in Germany and Pemex, who participated exploration, projects in Argentina. Therefore, companies can be classified due to a motivation of assets purchased:

- Energy securing companies;
- Market seeking companies;
- Reserve expanding companies;
- Companies providing global integration;
- Companies without motivation or ability to acquire foreign assets.

One company can have characteristics of several groups. For example, CNPC searches for extra resource base to provide energy security for the company, however a wide scale of its asset acquisition approach makes it globally vertical integrated as well. Market seeking

companies are different from Reserve expanding companies, because Market seeking firms don't have problems with reserves exhaustion (Saudi Aramco example), while reserve expanding firms face this problem (Statoil example).

What assets are acquired in the process of NOC internationalization?

This question is correlated with a question "Why National Oil Companies tend to internationalize through assets acquisitions?" Analysis of NOCs deals showed that companies use different approaches in Internationalization through asset acquisitions asset swaps. Some companies try to reach a global vertical integration, purchasing assets from upstream, midstream and downstream sectors, while other are focusing only on the one sector or just don't participate in international deals. Next matrix (table 8) represents what kind of asset each company acquired in chosen period.

As it's seen from the table 8, there are three types of companies according to their approach of internationalization strategy through asset acquisition and asset swaps can be determined.

First group (INOCs – International National Oil Companies) consists of companies that highly involved in foreign asset acquisition process. They purchase assets, that correspond to all constituents of oil and gas supply chain: from upstream to downstream. These companies are: Gazprom, Rosneft, CNPC and Statoil. According to research results, these NOCs have a wish to become or have already become Global Vertically Integrated Corporations. They are developing in all existing directions inside the industry. Their asset acquisition strategy is wide and they are grow by expanded acquisitions. For example Gazprom, through acquire Timing systems in West Europe, Gas hubs in South Europe, Petroleum networks in East Europe, participate exploration and production projects in Iraq and Venezuela. Same approach provide CNPC and Statoil. Companies from first group transform from National Oil Companies to a new type of Corporations – International National Oil Companies. They not just trade with other countries, but try to fully integrate in foreign markets by placement there their facilities.

Second group (Applicants) consists of Companies, which are focused on one or two sectors, ignoring the third one. These companies are: Kuwait Petroleum Corp., Saudi Aramco and Qatar Petroleum. These companies generate a huge share of world hydrocarbons supply. As It was shown in table 2, Saudi Aramco is the biggest Oil Company in the world in terms of oil produced. Most likely, the reason why they are not so developed in terms of Global Vertical integration, as companies from first group, is because they are focused on Volumes

of oil produced and they are still seeking for new sales markets. However, these companies still active in their internationalization process. For example, Saudi Aramco has just acquired refinery in Germany, which is produce rubber. Companies from this group made similar acquisitions in different regions as well. Thus, some of them have ambitious to participate in the first group.

Table 11. Kind of assets acquired by National Oil Company

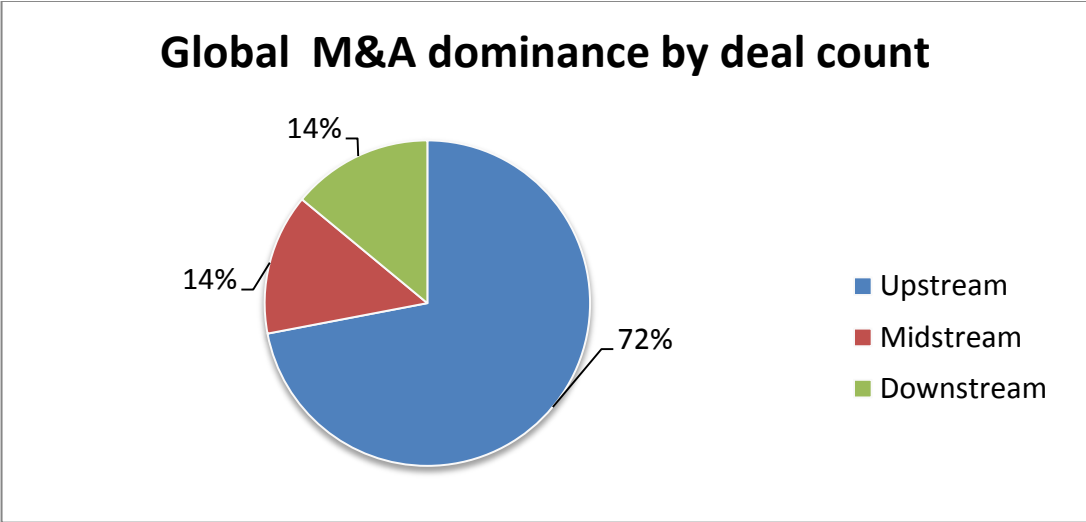
	Upstream		Midstream		Downstream		
	Exploration	Oil/Gas Production	Oil/Gas distribution assets	Storage Facilities	Refineries/Petrochemicals Production	Petroleum Networks	Technological Development
Saudi Aramco	-	-	-	-	+	-	+
Gazprom	+	+	+	+	+	+	+
Rosneft	+	+	+	+	+	-	+
CNPC	+	+	+	+	+	+	+
Pemex	+	+	+	-	-	-	-
Kuwait Petroleum Corp.	+	+	-	-	+	+	-
Abu Dhabi National Oil Co.	-	-	-	-	-	-	-
Petrobras	-	-	-	-	-	-	-
Qatar Petroleum	+	+	-	-	-	-	+
Statoil	+	+	+	-	+	-	+

Source: The table was formed by the author on a basis of deals analysis

Companies from the **third group (Passive acquires)** are not involved or almost not involved in international assets acquiring process. There is may be misunderstanding about Pemex, which has three pluses in the matrix. Acquisitions made are ad hoc in nature and aim to meet the demands of its own market. It is confirmed by the fact that Mexico, exporting oil, is forced to import gasoline. Other two: Abu Dhabi National Oil Corporation and Petrobras don't make foreign acquisitions at all. They prefer to stay in frames of international trade and to integrate in foreign environment.

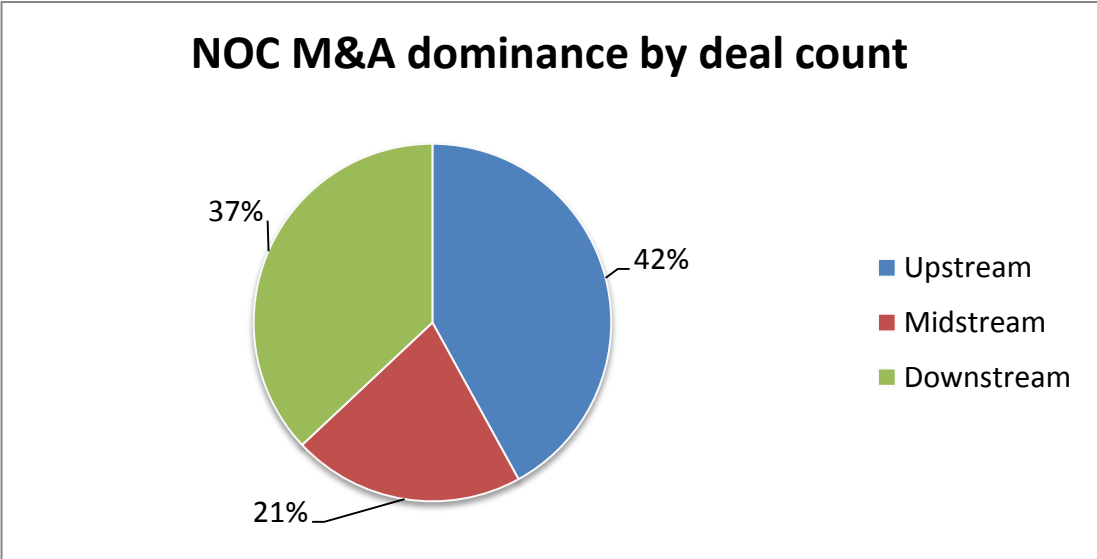
From the literature review chapter, we got an information about types of deals, that were provided by companies from oil industry. This data is represented in figure 2.

Figure 2. Global M&A dominance by deal count in 2015



Now we can compare this data with deals that were provided by chosen National Oil Companies in the same period.

Figure 6. 10 NOCs' M&A dominance by deal count in 2015



Source: The table was formed by the author on a basis of deals analysis

As it's seen from the figures 2 and 6 general trend of dominance of upstream assets in deals provided by the companies is the same. However, National Oil Companies tend to acquire assets from downstream sector more frequently. It means that there is a shift in internationalization approach of National Oil Companies. NOC tend to acquire those assets that allow them to get additional specific knowledge and to get an access to final consumers. building the value chain in downstream

What factors influence the decision to acquire an asset abroad?

From the case study of Gazprom neft, we got a big amount of exclusive information about decision-making process and inside information about operations that corresponds to foreign assets acquisitions. Basing on the interviews, it may be concluded that all acquisitions are determined by the Strategy which is set by the companies' managers. In Gazprom case there are two major drivers, that make foreign acquisitions possible. First of all, it's a desire to become global vertically integrated company and desire of assets portfolio diversification. For now, company is provided with resources for the next 20 years (with current production rates), but responsible management requires to add new assets to a company portfolio.

When a decision to acquire an asset due to the company's internationalization strategy is made, next factors may influence a choice of particular asset:

- Political factor;
- Factors of financial gains;
- Geographical proximity;
- Infrastructure availability.

How do these assets affect National Oil Companies' value chain?

Purchase of new assets diversify a value chain and increase value created by the company, therefore it has a positive impact on companies' profitability. Acquisition of new assets in foreign countries gives new opportunities for the company to create additional value, the crucial point is to find a balance between costs that brings a deal and possible value, that can be created. Nowadays, oil and gas market is stressed by low oil prices and companies tend to focus on costs reduction. Representatives from the Gazprom neft confirmed it. However, oil price is a very unstable variable. Thus, companies have to assume opportunities for further growth despite short-lived conditions.

Overall aim of the study was to identify a role of assets acquisitions and assets swaps in internationalization strategy of National Oil Companies. According to analysis that have been provided above, we can state, that National Oil Companies tend to internationalize by

the assets acquisitions and assets swaps. Each companies have a specific approach used for assets acquisition, and role played by asset acquisitions and asset swaps depends on a type of National Oil Company and it's internationalization strategy. In the framework of this study National oil companies used to be classified in accordance to different principles and for each type asset acquisitions play a specific role in internationalization strategy.

Theoretical implication of the study is represented by the classification of National oil companies due to their internationalization approach they use through assets acquisitions an asset swaps. This classification deepen existing knowledge on the topic of internationalization of National Oil Companies and gave a background for future divarication of companies due to mentioned principles. It explains motivations that companies use in their foreign assets acquisition process and give a description of goal that companies follow.

Identified factors, that influence the decision to acquire an asset abroad can be a start-point for future development of a framework, that can provide a universal method of assets assessment.

Managerial implication is that the study helps to identify company's Internationalization approach by asset acquisitions and asset swaps in the global oil and gas industry. It is equally useful for companies themselves and for other market players, because they can find out in which direction particular company is developing and what to expect from it in the future. In other words, it may help to stay ahead of competition by understanding the level of completion in the industry by identifying the position of national oil companies in each industry across the value chain.

Thesis may contribute in understanding of the internationalization strategies adopted by the NOCs and identify possible opportunities to collaborate with them. From the list of analysed companies, companies representatives may find a new partner according to values, that company brings through its internationalization strategy.

The result of this study may support in making informed business decisions by understanding the structure of the overall oil and gas industry in terms of major players internationalization strategy.

Field for future research is very wide. Current analysis of companies' deals affects only 10 companies. It is rather relevant to study all international trading National Oil Companies. Moreover, Factors, that influence the decision to acquire an asset abroad can be added and formulated in a framework, as it was mentioned above.

Limitations of the study are next:

- Deals of 10 companies are analysed. It's not enough to be sure that identified trends are fair for the whole industry;
- Analysis of companies' deals require an investigation of huge amount of data. It's impossible to describe all deals in details, that's why companies approaches of internationalization through assets acquisitions and assets swaps is going to be generalized;
- Case of only one company was assumed in details. It could be more relevant to get interviews from representatives of other National Oil Companies. Inside information from managers of different companies and countries could identify more general principles that rule National Oil Companies' internationalization approach;
- There may be some subjectivism from the research, because the conclusions that were made are based on the qualitative data.

CONCLUSION

In current research, the topic of National Oil Companies internationalization through assets acquisitions and assets swaps was discussed. **The purpose** of this thesis was to identify a role of assets acquisitions and assets swaps in internationalization strategy of National Oil Companies. To reach the final goal of the study, next research questions have been answered:

- Why do National Oil Companies tend to internationalize?
- What assets are acquired in the process of NOC internationalization?
- Why do National Oil Companies acquire particular types of foreign assets?
- What factors do influence the decision to acquire an asset abroad?
- How do these assets affect National Oil Companies' value chain?

During the research next steps were made. The main internationalization theories were described and with a help of them one of research questions was answered: "Why National Oil Companies tend to internationalize?" Major reasons that have been found out are: Market seeking, Resource seeking, Efficiency seeking and Strategic asset seeking. Further with a help of theoretical background, companies were classified in accordance to a motivation they are directed in internationalization strategy, and it was an answer on the question "Why National Oil Companies acquire particular types of foreign assets?":

- Energy securing companies;
- Market seeking companies;
- Reserve expanding companies;
- Companies providing global integration;
- Companies without motivation or ability to acquire foreign assets.

National Oil Companies foreign deals were analysed in order to describe, what kind of assets are acquired by NOCs. It was found out, that there are 3 types of companies in accordance to assets acquired by the NOCs:

- Companies, which acquire assets from the whole oil supply chain;
- Companies, which focus on particular assets from a concrete sector of a supply chain (upstream, midstream, downstream);
- Companies, which don't participate foreign acquisition deals.

During the case study of Gazprom neft, factors that influence the decision to acquire an asset abroad were identified:

- Political factor;
- Factors of financial gains;
- Geographical proximity;
- Infrastructure availability.

Moreover, It was found out that purchase of new assets diversify a value chain and increase value created by the company, therefore it has a positive impact on companies' profitability. Acquisition of new assets in foreign countries gives new opportunities for the company to create additional value, the crucial point is to find a balance between costs that brings a deal and possible value, that can be created.

Overall aim of the study was to identify a role of assets acquisitions and assets swaps in internationalization strategy of National Oil Companies. According to analysis that have been provided above, we can state, that National Oil Companies tend to internationalize by the assets acquisitions and assets swaps. Each companies have a specific approach used for assets acquisition, and role played by asset acquisitions and asset swaps depends on a type of National Oil Company and it's internationalization strategy. In the framework of this study National oil companies used to be classified in accordance to different principles and for each type asset acquisitions play a specific role in internationalization strategy.

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APPENDICES

Appendix 1. – Questions for in-depth interview

1.	What is the main goal of foreign assets acquisition?
2.	How does the decision-making process about the acquisition of an asset within the organization look like?
3.	What factors influence the choice of a particular asset for the acquisition in terms of the company's strategy?
4.	What kind of assets are interested for the company (upstream / downstream - geography, type of mine / plant)?
5.	How much it is important for the company to expand amount of reserves during assets acquisition process?
6.	Assets are acquired from NOCs or IOCs?
7.	What kind of deals were implemented during last 5 years?
8.	Are there any general market trends? If yes, what kind are they?
9.	Does the internationalization strategy has changed in terms of sanctions?
10.	Does internationalization strategy changed under the low oil prices?

Table 5 – Deals of Saudi Aramco for the last 5 years

Deal List						
Ann. Date	Target Name	Acquiror Name	Role of Company	Rank Value (MM)	Target Advisors	Acquiror Advisors
16-Mar-2016	Motiva Enterprises LLC-Assets	Royal Dutch Shell PLC	Target Mid Parent	-	-	-
01-Nov-2015	Sadara Chemical Co-Tank Farm	Jubail Chem Storage & Svcs Co	Target Ultimate Parent	469,31	-	-
22-Sep-2015	Lanxess AG-Synthetic Rubber	Aramco Overseas Co BV	Acquiror Ultimate Parent	1.343,03	Rothschild (Advisory)	Deutsche Bank (Advisory)
24-Jun-2015	LUKOIL Saudi Arabia Energy Ltd	ARAMCO	Acquiror	-	-	-
22-Apr-2015	Conxtech Inc	Saudi Aramco	Acquiror Immediate	25	-	-

		Energy Ventures	Parent			
31-Oct-2014	Yanbu Co	China Petroleum & Chem Corp	Target Immediate Parent	562	-	-
02-Jul-2014	S-Oil Corp	ARAMCO	Acquiror	1.965,14	-	Citi (Advisory)
17-Jun-2013	Motiva Enterprises LLC-Oil	Sprague Operating Resources	Target Mid Parent	-	-	-
03-Jun-2013	Zilift Ltd	Saudi Aramco Energy Ventures	Acquiror Immediate Parent	-	-	-
09-Apr-2013	Sekal AS	Saudi Aramco Energy Ventures	Acquiror Immediate Parent	-	-	-
24-Feb-2013	Motiva Enterprises-Refined	Arc Terminals LP	Target Mid Parent	-	-	-
19-Feb-2013	Tri Star Energy LLC-Assets	Seeking Buyer	Target Mid Parent	-	-	-
27-Jun-2012	Vela International Marine Ltd	National Shipping Co of Saudi	Target Immediate Parent	1.206,56	HSBC Saudi Arabia Ltd (Advisory)	JP Morgan Saudi Arabia Co (Advisory)

Source: Eiken database

Table 6 – International deals of Gazprom for the last 5 years

Deal List of Gazproms						
Ann. Date	Target Name	Acquiror Name	Role of Company	Rank Value (MM)	Target Advisors	Acquiror Advisors
04-Sep-2015	W & G Beteiligungs-GmbH & Co	Gazprom	Acquiror	-	-	-
04-Sep-2015	WIEE	Gazprom	Acquiror	-	-	-

04-Sep-2015	Wintershall Erdgas Handelshaus	Gazprom	Acquiror	-	-	-
04-Sep-2015	WINZ	Gazprom	Acquiror	-	-	-
03-Jun-2015	PetroVietnam Oil Corp	Gazprom	Acquiror	-	-	-
24-Apr-2015	EnBW-CNG Filling Stations	GAZPROM Germania GmbH	Acquiror Ultimate Parent	-	-	-
06-Apr-2015	Dung Quat Oil Refinery	Gazprom Neft'	Acquiror Immediate Parent	-	-	-
29-Dec-2014	South Stream Transport BV	Gazprom	Acquiror	-	-	-
04-Nov-2014	SOVAG	GAZPROM Germania GmbH	Acquiror Ultimate Parent	-	-	-
01-Jul-2014	Wintershall Holding-Gas Asset	Gazprom	Acquiror	-	-	-
27-Jun-2014	OMV AG	Gazprom	Acquiror	-	-	-
13-May-2014	Central European Gas Hub AG	Gazprom	Acquiror	-	-	-
18-Apr-2014	RAG Kiha Ltd	NIS ad Novi Sad	Acquiror Ultimate Parent	-	-	-

24-Jun-2013	W & G Beteiligungs- GmbH & Co	Gazprom	Acquiror	-	-	-
26-Feb-2013	Undisclosed Kurdistan Oil	Gazprom Neft'	Acquiror Immediate Parent	-	-	-
30-Nov-2012	HIP- Petrohemija ad	NIS ad Novi Sad	Acquiror Ultimate Parent	87,52	-	-
30-Nov-2012	OMV BH doo	NIS ad Novi Sad	Acquiror Ultimate Parent	-	-	-
30-Oct-2012	Romanian Filling Stations	Gazprom Neft'	Acquiror Immediate Parent	-	-	-
14-Sep-2012	Unicom Holding- Bunkering Ops	Gazprom Neft'	Acquiror Immediate Parent	-	-	-
08-Aug-2012	AC Milan	Gazprom	Acquiror	-	-	-
07-Aug-2012	VISS-Petrol stations(210)	Gazprom Neft'	Acquiror Immediate Parent	-	-	-
18-Jul-2012	Gas Stations, Romania(3)	NIS Petrol EOOD	Acquiror Ultimate Parent	-	-	-
10-Jul-2012	Marine Bunker Balkan SA	Gazpromneft' Marin Bunker	Acquiror Ultimate Parent	-	-	-
15-May-2012	Rekar & Varna-Petrol Stations	NIS Petrol EOOD	Acquiror Ultimate Parent	-	-	-
15-May-2012	Emko-M- Petrol Stations	NIS Petrol EOOD	Acquiror Ultimate Parent	-	-	-

15-May-2012	Silgrans-Petrol Stations	NIS Petrol EOOD	Acquiror Ultimate Parent	-	-	-
15-May-2012	Neftotrans 2000-Petrol Station	NIS Petrol EOOD	Acquiror Ultimate Parent	-	-	-

Source: Eiken database

Table 7 – International deals of Pemex for the last 5 years

Deal List						
Ann. Date	Target Name	Acquiror Name	Role of Company	Rank Value (MM)	Target Advisors	Acquiror Advisors
21-May-2014	YPF SA	PEMEX	Acquiror	-	-	-
26-Nov-2013	Astilleros Espanoles-Astillero	PEMEX	Acquiror	-	-	-
01-May-2013	Hijos de J Barreras SA	PEMEX	Acquiror	20	-	Athelera LLC (Advisory)
29-Aug-2011	Repsol YPF SA	PMI Holdings BV	Acquiror Immediate Parent	500	-	Credit Agricole Corporate & Investment Bank (Advisory)

Source: Eiken database

Table 8 – Deals of ADNOIC for the last 5 years

Deal List						
Ann. Date	Target Name	Acquiror Name	Role of Company	Rank Value (MM)	Target Advisors	Acquiror Advisors
17-Nov-2014	Emarat-Petrol Stations	Abu Dhabi National Oil Co	Acquiror	-	-	-
28-May-2012	Emarat-Petrol Stations(74)	Abu Dhabi National Oil Co	Acquiror	-	-	-

Source: Eiken database

Table 9 – Deals of Petrobras for the last 5 years

Deal List						
Ann. Date	Target Name	Acquiror Name	Role of Company	Rank Value (MM)	Target Advisors	Acquiror Advisors
02-Jul-2013	Termoacu SA	Petroleo Brasileiro SA	Acquiror	-	-	-
31-May-2012	Petrolera Entre Lomas SA	Petrobras Argentina SA	Acquiror Ultimate Parent	249,4	-	-
01-Apr-2012	Manguinhos Refinaria	Petroleo Brasileiro SA	Acquiror	-	-	-
30-Jan-2012	Energetica Camacari Muricy SA	Petroleo Brasileiro SA	Acquiror	-	-	-

Source: Eiken database

Table 10 – Deals of Qatar Petroleum for the last 5 years

Deal List						
Ann. Date	Target Name	Acquiror Name	Role of Company	Rank Value (MM)	Target Advisors	Acquiror Advisors
15-May-2014	Shell Canada Energy Ltd-assets	CQ Energy Canada Partnership	Acquiror Mid Parent	45,97	-	-
08-May-2014	Centrica-Canadian Natural Gas	Qatar Petroleum International	Acquiror Immediate Parent	184,71	-	-
23-Jan-2014	Block BC-10,Parque das Conchas	Qatar Petroleum International	Acquiror Immediate Parent	1.000,00	-	-
22-Jul-2013	GEK Terna Hldg RE-Heron II	Qatar Petroleum International	Acquiror Immediate Parent	58	-	-
22-May-2013	Total E&P Congo	Qatar Petroleum International	Acquiror Immediate Parent	-	-	-

Source: Eiken database

