

WHAT PRACTICE DO RUSSIAN CORPORATIONS BRING INTO THE EU COUNTRIES?

Corporate strategy study and assessment of social and environmental consequences of Russian corporations' investment activities by the example of some of them

INDEPENDENT REPORT

Moscow, 2010

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INTRODUCTION

Capitalism restoration in the countries of the former Soviet bloc was accompanied by opening of markets, including investment markets. At first, these new opportunities were used by the Western corporations that aimed at buying production assets and technologies at minimal prices, acquiring enterprises and companies of the East. Nevertheless, in late 1990-s and 2000-s this tendency turned into quite an opposite one. Along with the on-going acquisition of the peripheral countries' assets by the European corporations, we can see an active expansion of the peripheral countries' business into European Union (EU). Corporations from Brazil, India and China are involved in this process, but Russian companies are especially active. The possibility of such an expansion is provided by competitive advantages of major business representatives from the peripheral countries. The main advantages are the same features of business conduct that have previously attracted corporations from economically advanced countries into these regions. This includes the possibility of minimizing social and environmental expenditures along with using sufficiently qualified labor force and still acceptable level of production engineering facilities.

One of the striking examples thereof is the methods of the business conduct practiced by many Russian corporations. In 1990-s they gained control over Russian markets and production base, often by means of questionable bargains or some state authorities decisions that made mass media representatives suspect corruptive background of these decisions. In 2000-s these corporations made use of the beneficial economic situation and started expansion to EU countries.

Methods of business conduct of these companies sometimes differed as follows:

- in the sphere of social and labor relations:

— drastic reduction of social protection and labor rights as well as successful lobbying of this measure to be legally adopted; hindering in independent trade union movement development; direct and flagrant violation of employees' rights even in terms of the rather liberal (or neo-liberal) legislation adopted in favor of the employer;

- in the sphere of environmental policy:

— reduction of environmental expenditures, disregard of environment protection standards and safety requirements for the population of the surrounding territories, exertion of pressure upon activists of the ecological organizations;

- in the sphere of production policy and industrial engineering:

— forbearing from long-term investments into production base and heavy use of old equipment; frequent disregard of product quality requirements;

- in the sphere of investment policy

– orientation at manipulation of production assets as a method of quick profit derivation and financial jobbery rather than at long-term work in the industry; at withdrawal of financial assets from accounts of the controlled enterprises rather than financing production; sometimes violation of minority shareholders' rights or financial fraud takes place.

However, the advantages for corporations in this case turn into losses for employees – not only in the peripheral countries but also in the EU countries. The surge of European corporations' assets withdrawal to peripheral countries first resulted in social and economic difficulties in Europe (which runs the gamut from the reduction of taxation base that means reduction of budgetary funds which could have been directed to social needs, to unemployment growth). Then it served as a basis for certain neo-liberal reforms that allowed removal of many institutions and practices that had been considered an a progressive achievement of a social state. As a result of these reforms, Europe has already made a Fabian step towards similar practices, following the example of the countries of the world economic periphery. The so-called “downhill rush” supposes overall reduction of social and environmental standards and their global leveling at the lowest, not at the highest level.

Nowadays there is a high possibility that expansion of peripheral corporations into the EU countries will force European states make a next move in the same direction, approving de jure or de facto transfer of these practices to the European territory.

This can be generally impeded only by struggling for adoption of a more civilized social and economic practice and environmental policy by corporations operating in economic periphery countries – both European and authentic. Nevertheless, the effectiveness of such a struggle in these countries is diminished because corporations operating there can use governmental bodies' resources exclusively for their own interests – due to the high level of corruption or even factual integration of the state apparatus and the corporate management.

Therefore the only way of changing the situation consists in limiting the expansion into the EU countries for business representatives of peripheral countries that use the above mentioned working methods, close control of their actions and the pressure of the Western community on these companies. This could place a barrier against transmission of the corresponding business methods to the European countries and support the social, ecological movements and trade unions that attempt to improve the situation with social and labor rights and environmental standards observation within the EU countries themselves.

One of the characteristic examples of activities of Russian corporations expanding in the EU is the conduct of the representatives of the United Chemical Company URALCHEM, Open Joint Stock Company. To predict the possible consequences of this company's expansion in the EU countries (as an example of a peripheral company generally using the described methods of business conduct) we will describe here the consequences of its operation in Russia.

It shall be noted that in the middle of 2009 Russian mass media disclosed information on the corporation's intent to attempt IPO at London Stock Exchange (see, for example, http://www.newchemistry.ru/printletter.php?n_id=5924).

Then, at the end of 2009 it was announced that a transshipment terminal for nitrogenous fertilizers is to be constructed in Dieppe (France) starting May 2010, to be finished in the summer of 2011 (for example, (<http://portnews.ru/news/50934/>). Moreover, it is possible that in the same town there will also be an off-grade chemical fertilizers processing plant with capacity 250-300 thousand tonnes per annum. It is assumed that dry granular carbamide will be supplied to the plant and then processed into liquid. The complex will comprise two storehouses for 2.5 thousand tonnes each and four reservoirs for storage of the final product. It is planned to set off two ships of 8 thousand tonne capacity monthly, as well as to perform motor transportation and rail road deliveries. The proprietor of these facilities is to be the United Chemical Company URALCHEM based in Russia that bought a land plot from Dieppe municipality in 2008 – provided that the construction of these facilities will not have a harmful effect on the environment.

Moreover, since 2009 the company has claimed to buy two enterprises – the “flagships” of Polish chemical industry (Zakłady Azotowe Pulawy (ZAP) and Zakłady Chemiczne Police (ZChP). On April 15th, 2009 the affiliated company “URALCHEM Trading” was registered in Latvia. According to the information of the Latvian paper “Dienas Bizness”, the company plans to build its terminal in the free port of Riga. URALCHEM also possesses URALCHEM FREIGHT LIMITED company registered in Limassol, Cyprus which was established in order to expedite and ship by sea the company's products.

When evaluating the characteristics of a company interested in attracting investments, the following factors are usually taken into consideration:

- company's interest in long-term projects implementation, observance of the investor's rights and legitimate interests, production base maintenance at the necessary level;
- transparency of the company's activity for monitoring and inspection (first of all – for civil institutions: public organizations and media representatives);

- practices in social and labour relations and environmental policy which are adopted by the company and may be transferred, to some extent, into the EU countries.

The purpose of this report is to present Russian business strategy analysis, using several companies' activities as an example.

1. WIDESPREAD INVESTMENT STRATEGIES OF RUSSIAN CORPORATIONS

Preamble

To determine whether it is expedient to invest finance in a certain corporation and its projects, the following two main questions should be answered:

A. What goal is set by the company when it proposes a certain investment project for implementation?

B. How is the company itself assessed as an investor?

What aspects characterize a company as an investor? First of all, these are:

- Working experience of the company and its management in the particular industry. It is evident that a company having a long history in the particular industry and managed by people tightly bound to the industry will be interested in serious and long-term investments and aimed at long-term projects implementation because it is its primary activity. If, on the contrary, the company has a very short history and its management has changed various fields of activity, then it may be interested rather in quick profit derivation than in long-term operation. In this case, it is probable that its working methods will be characterized by negligence of the law and the interests of territorial municipality where the project is implemented, as well as by disregard of its employees' interests – as in this case quick profit derivation is much more important than the reputation gained by years of operation in the industry.

- Does the investor possess a sufficient amount of funds for project implementation? It is good if it is financially well-off and will finance the project using its own funds – in this case there is a guarantee that the project will be implemented. If, on the contrary, the project is financed with borrowed funds and the investor itself is not financially solvent, this either means that the project will not be implemented or it means that the existence of the project will serve the goal of quick profit derivation and consequently will pose significant risks (because in this case it is not necessary for the company to take care of its reputation, while legality, environmental risks and credibility in the eyes of the authorities and local citizens have little significance).

- What did the investor prove itself to be before? If it has violated agreements with its partners, it will certainly do it again.

The analysis of the practical activities of URALCHEM Company gives the following answers to these questions.

1.1. Companies and their management experience in the particular sphere

A widespread practice among Russian corporations is operation aimed at profit derivation due to quick assets resale rather than at implementation of long-term projects in the given industry. Such an approach is not often associated with the accumulation of the company's and its management's experience in the particular industry because it does not imply long-term operation in the sphere.

This practice is proved by very frequent changes in ownership of the key enterprises in some industry branches. For instance, the controlling block of shares of Voskresensk Mineral Fertilizers OJSC (Moscow region) that until lately had an important position in Russian chemical industry was bought in spring 2006 by Agropodmir Group from Fosagro holding. Nevertheless, as soon as June 2008 71.72% shares of Voskresensk Mineral Fertilizers OJSC (Moscow region) were bought from Agropodmir Group by the representatives of UCC URALCHEM.

The above mentioned URALCHEM holding is a rather telling example of the actual competence level of the top management of some Russian corporations.

United Chemical Company URALCHEM OJSC (UCC URALCHEM OJSC) has a very short history of operation in the chemical industry. The company was registered October 30, 2007. The Company shareholders are offshore structures controlled by the entrepreneur Dmitry Mazepin.

The main part of the Company's production assets consists of the enterprises controlled by "Konstruktorskoye Buro" (Design Bureau) LLC which was established by the above mentioned Dmitry Mazepin some time earlier – in 2004.

On November 19, 2004, Fintrastcom JSC acting in the interests of Dmitry Mazepin acquired the state-owned stake of Kirovo-Chepetsk Chemical Works, OJSC (KCCW) weighing 38.85%. Earlier, a blocking share of 25.15 % of KCCW belonging to Agrochemical Corporation AZOT OJSC had ended up under control of some companies close to Mazepin.

By year 2005 Mazepin had got control over Galogen plant, the blocking share of AZOT OJSC and more than 40 % shares of Perm Mineral Fertilizers (all the three enterprises are located in Perm region in Russia). These assets had belonged to Agrochemical Corporation AZOT OJSC. In the previous several years ACC AZOT had changed its owners several times –

at the end of 1990-s the largest shares of the company belonged to Mezhhregiongaz and Interchemprom, while in 2003 they belonged to Neftegazbank; however, by that time the shares of the leading enterprises controlled by ACC AZOT had been sold to other companies.

After creation of URALCHEM holding, in June 2008 Dmitry Mazepin bought 71.72 % shares of Voskresensk Mineral Fertilizers OJSC (Moscow region) from Agroprom Group which, in its turn, had gained control over these shares only in spring of 2006 by buying them from Fosagro holding.

In year 2008 Mazepin also gained control over 10 % shares of TogliattiAZOT (Samara region).

One of the remarkable characteristics of URALCHEM's activity at these enterprises was the underinvestment of the main production funds together with the withdrawal of finance from the enterprises' accounts for other needs, such as owner dividends payments and non-core assets acquisition.

The underinvestment of the main funds of UCC URALCHEM's production structures was noticed by Russian financial analysts. Last spring, while prolonging the credits of URALCHEM, Sberbank assessed its three chemical industrial complexes at 22.7 bln rubles.

Mineral Fertilizers Plant KCCW (Kirovo-Chepetsk, Kirov region) was assessed at a little over 6.0 bln rubles, AZOT (Berezniki, Perm region) – at about 11.0 bln rubles, and Voskresensk Mineral Fertilizers (Moscow region) – at 5.7 bln rubles. URALCHEM itself was assessed at 60.0 bln rubles.

This assessment of URALCHEM assets at 60.0 bln rubles (or about \$ 2.0 bln) is considered inadequate, for instance, by Renaissance Capital company: it reflects the cost of worn-out depreciable assets. According to the financial analyst Marina Alexeenkova, consolidated assessment of URALCHEM's plants will amount to \$ 2.0-3.0 bln.

Nevertheless, despite the financial shortage, the owner of URALCHEM paid himself 5.4 bln rubles as dividends for year 2008 upon the shares of Kirovo-Chepetsk Chemical Works included in the holding. This 1.8 times exceeds KCCW net profit (which amounted to 3 bln rubles in 2008). This episode may lead to the conclusion that the holding's owners place their own profit above the interests of production projects' development (into which the main part of companies' profits is usually invested).

Dividends AZOT OJSC, Berezniki, following the results of 9 months, were almost seven times as big as the company's net profit for the same period and amounted to 7,2 bln rubles. The recommendation about the payment of such sum the Board of directors of AZOT OJSC accepted on December, 2. Almost all dividends were received by the Open Company UK "Uralchem" — it possesses 99,9 % of AZOT OJSC. According to the explanations of the representatives of

"Uralchem", the dividends were added not only on the profit received for 9 months of 2009 (1.03 bln roubles), but also on retained earnings of last years — together about 8 bln roubles. The report of AZOT OJSC stated that the company did not pay dividends in full since 2007. "Uralchem" did not inform on what the funds received from AZOT OJSC were spent. At the same time following the results of 9 months there were 32.5 million roubles on OJSC accounts.

It should be noted that, according to the mass media, in the second half of 2008, investments of the companies which were associated with Dmitry Mazepin were lavishly spent on non-core assets acquisition,. At the very end of 2008 a new night club **Pacha Moscow** was opened in Moscow as one of the well-known global chain Pacha International, which gave the new club both the name and the company style. In spring 2009 the mass media revealed the information that the club's beneficiaries are the companies associated with Dmitry Mazepin. The expenses of the club establishment were assessed at almost 40 million dollars.

In summer 2008 the representatives of URALCHEM also bought 3 floors in one of the tower buildings in Moscow-City business quarters. This purchase was assessed by independent experts at 60 million dollars. All these events took place when the company experienced financial difficulties.

Thus, we can see that, firstly, the enterprises comprising URALCHEM holding have been controlled by the holding for just a short period of time. Secondly, many of them have changed their owners several times. And thirdly, the Company's finances are not directed towards the renewal of production funds and the development of the Company's production facilities, but, on the contrary, are funneled from the enterprises' accounts and directed towards acquisition of non-core assets and paying dividends to the Company's owners. Such an approach corresponds to the practice of certain representatives of business in Russia who regard their assets as an object of financial speculation rather than their company's production base. By definition, this approach is oriented at short-term profit derivation and quick assets resale rather than at long-run ownership and support of long-term implementation projects.

The type of activity which implies financial operations with assets rather than solving production tasks has been predominant in the career of UCC URALCHEM owner Dmitry A. Mazepin.

He graduated from Moscow State Institute of International Relations of MFA of USSR. His education was not related to professional qualification for chemical industry.

Mazepin occupied managerial positions in companies controlling petroleum industry. In 1997 he held the rank of the Vice President of Tyumen Oil Company, and in 1997—1998 he was the Executive Director of Nizhnevartovskneftegas OJSC.

After that he spent some time working in the banking sphere. In 1998—1999 he occupied the position of the Deputy Chairman of the Board in Flora-Moscow bank.

Then he worked in the sphere of federal property management – as the President of Russian Federal Property Fund (RFPF). In June 2001 he was appointed state-representing General Director of Kuzbassugol Coal Company OJSC that was at that time burdened with debts amounting to total of about 10 bln rubles. According to the words from an interview with Vladimir Malin who was RFPF Director at that time, Mazepin's task was to prepare the enterprise for state share selling. It was already in December 2001 that Mazepin went on leave and in June 2002 he was formally relieved of his duties in Kuzbassugol.

From January till June 2002 when he was the First Deputy Chairman of the Russian Federal Property Fund; he was elected member of Board of Directors of Rosneft Company and Transneft OJSC. At that time one of the key tasks of RFPF was to sell the state shares controlled by the organization. These bargains caused serious censure from the community and inspection bodies. As a result, for instance, Vladimir Malin who run RFPF at the time of Dmitry Mazepin's work was later dismissed from his position and in December 2005 he was convicted of bribery and excess of power by Zamoskvoretsky court in Moscow.

In 2003 he worked for Sibur holding that controlled shares of some chemical industry enterprises. In 2004 he established his own company – “Konstruktorskoye Buro” (Design Bureau).

Thus, analyzing the facts of Dmitry Mazepin's biography, one can draw the conclusion that his work in any sphere lasted only for a short period of time. These time periods were evidently insufficient to familiarize him with the peculiarities of working in the particular industries and may have been optimal only for gaining quick control or, on the contrary, selling assets.

These facts give another reason to think that both UCC URALCHEM and its management are aimed at assets manipulation and profitable resale rather than at long-term production administration and development. Structures of this type do not usually become reliable investors willing to support long-time projects because they prefer quick profit derivation and passing the risks to the next owner of their assets and to other parties.

1.2. Corporations' investment strategies in Russia

The working methods of Russian corporations are very often characterized not only by absence of their own funds for long-term investments, which would serve as an evidence of the company's reliability, but also by the withdrawal of funds from their own enterprises' accounts to cover their own significant debts.

For instance, “The Moscow Post” has already accused representatives of Acron holding, also operating in the field of chemical industry, claiming that its proprietor Vyacheslav Kantor “regularly exempts current assets from his enterprises by means of various financial contrivances” (http://www.compromat.ru/page_25742.htm). In the first quarter of 2006 Acron OJSC bought 51 % shares of Hongi-Acron plant located in China, the 56 percent of which, as it is claimed by the journalists of the above mentioned periodical, had previously belonged to V. Kantor personally. Thus, according to the journalists, physical body V. Kantor had resold the plant to an enterprise where he himself was the controlling shareholder. The journalists of “The Moscow Post” also assure that in the middle of 2006 another enterprise associated with the same owner, Dorogobuzh OJSC, announced its plans of production expansion as well as that it had bought equipment for annual production of 500 thousand tonnes of ammonia and 450 thousand tonnes of carbamide in Italy. Soon it was revealed that the said equipment was manufactured in 1974; it had been in operation for 30 years until the plant was closed in 2004, and then, as the journalists say, the equipment “stood idle, rusting for 2 years”. According to the opinion of the journalists, V.Kantor first bought this plant together with the land plot at a reduced price on behalf of his off-shore company, and then, having waited for European Commission subsidy for Italy, received Italian governmental subsidy to close down the enterprise. After that he sold the equipment, the quality of which had been complained on, to his Dorogobuzh at the price of new high-tech equipment.

However, URALCHEM gives even more glaring examples.

As stated by Russian financial analysts, at the end of 2008 and in 2009 prices for mineral fertilizers decreased by several times and are still much lower than before the crisis, which has led to reduction of UCC URALCHEM profits. Thus, Voskresensk Mineral Fertilizers OJSC, whose controlling block of shares was purchased by companies associated with Mazepin in May 2008, started losing profit since August 2008. In September of the same year prices for phosphorous fertilizers were reduced by more than three times. According to the information from Fosagro, the sole supplier of apatite concentrate to Voskresensk Mineral Fertilizers plant (VMF), the volume of supplies to VMF dropped drastically and Voskresensk plant started generating losses.

However, VMF was acquired not for own but for borrowed funds – Sberbank of the RF granted URALCHEM a credit in amount of 700 million dollars for this purpose in 2008. The VMF bargain amounted to 358.6 million dollars and the direction of investment of the rest of the credit amount is unknown. By autumn 2009 URALCHEM not only failed to pay back to Sberbank of the RF, but also required additional funds. In the middle of November 2009 URALCHEM came to an agreement with Sberbank of the RF and gained prolongation of all the

credits previously granted to it (amounting to over 25 bln. rubles) and also received a new credit of 3.089 bln. rubles. The motivation of Sberbank managers in this case cannot be rationally explained, of course, if one assumes that they followed the interests of their company rather than pursued their personal aims.

Moreover, URALCHEM also received some credits from the enterprises that it is in charge of. The credits from Kirovo-Chepetsk Chemical Works and AZOT OJSC totally amounted to about 28.0 bln. rubles: approximately 5.0 bln. rubles from each of the enterprises at rates 15.5 и 18.5% per year, correspondingly, till May 2011.

According to the financial balance statement for the 3rd quarter of 2009, the holding was burdened with debts amounting to over 56 bln. rubles.

The enterprises comprising the holding have serious financial difficulties, too. On December 23, 2009 Volgo-Vyatsky bank of Sberbank of the RF gave Mineral Fertilizers Plant Kirovo-Chepetsk Chemical Works JSC (belonging to URALCHEM group) a credit of 1 bln. rubles, with AZOT OJSC (URALCHEM group, too) as its guarantor. The credit was given for 18 months for the goal of financing current activities of the enterprise.

This shows that UCC URALCHEM does not possess its own finance for investment in projects implementation, and the currently borrowed funds of the holding only partially cover its existing debts. Thus, the investment projects being implemented are unlikely to be long-term and they must be just a method for temporary withdrawal of funds and further investment in some other projects, short-term as well.

Exactly this investment strategy is often adopted by Russian corporations.

1.3. Relations between United Chemical Company URALCHEM and its owners with their partners

Russian corporations very often adhere to the business ethics different from that in Europe. Their representatives' conduct is often characterized by violation of minority shareholders' rights.

One of the examples which shows the strategy typical for Russian business is, among others, the policies of URALCHEM holding. Any company can be clearly characterized by the history of its previous activities. Since the very beginning of his work in the industry, Dmitry Mazepin was involved in several conflicts with minority shareholders, totally ignoring their rights and legal stipulations concerning such shareholders. Many of these conflicts require a separate examination.

For instance, according to the information revealed in “Kommersant”, in June 2008 the holding bought a stake of 71,72% share of Voskresensk Mineral Fertilizers OJSC (VMF) from three off-shore companies registered on Cyprus. It ignored the legal regulation obliging to make a share redemption offer to other shareholders for the same price as for the main stake when it refused to buy the main stake of 24.5 % share belonging to Cyprian company Shades of Cyprus Ltd., by simply not accepting the offer documents from the minority shareholder saying that the company submitted the documents past the deadline. Representatives of the minority shareholder were not allowed to enter VMF or URALCHEM, nor the notary for whom Shades of Cyprus Ltd had written off the VMF shares belonging to the minority shareholder was let in. . At the same time, URALCHEM bought 0.77 % VMF from Fosagro, 3 % from Cyprian company Dornan Property Services Ltd. The cost of 24 % of VMF was assessed at 114 million dollars at that time. This circumstance has already been the subject to judicial proceedings and the court has established that the minority shareholder acted rightfully and the notary made all the effort to submit the offer documents to URALCHEM.

Shades of Cyprus holds 24 % share of VMF and tried to sell it to URALCHEM in November 2008 in the context of obligatory offer to minority shareholders. But URALCHEM refused to buy the stake claiming that the off-shore company submitted the documents too late.

Thus, this incident provides an example of URALCHEMs acting against the interests of minority shareholders and partners, which gives the holding a negative characteristic as investor.

Such a strategy often poses a problem in relations between Russian businessmen and European investors; as a result, Russian companies fail to achieve the goals they had set for themselves when trying to attract European investments. Thus, on July 18, 2008 the already mentioned Acron OJSC, also operating in chemical industry, started its IPO in London, but Russian mass media regarded this IPO approach as a “failure” (see http://www.compromat.ru/page_25746.htm).

Conclusion

It has been shown that Russian corporations are often aimed at short- or, maximum, medium-term development prospects. Enterprises included in URALCHEM holding may serve as an example here.

The enterprises comprising URALCHEM holding have been controlled by the holding for just a short period of time. Secondly, many of them have changed their owners several times. And thirdly, the Company’s finances are not directed towards the renewal of production funds and the development of the Company’s production facilities, but, on the contrary, are funnelled

from the enterprises' accounts and directed towards acquisition of non-core assets and paying dividends to the Company's owners. Such an approach corresponds to the practice of certain representatives of business in Russia who regard their assets as an object of financial speculation rather than their company's production base. By definition, this approach is oriented at short-term profit derivation and quick assets resale rather than at long-run ownership and support of long-term implementation projects.

The same conclusion can be made on the basis of the key biographical facts of Mazepin, who reminds of the entrepreneurs frequently encountered in Russian business who prefer quick profit derivation and passing the risks to the next owner of their assets and to other parties. Moreover, his career has been bound with the activities of companies and persons that had certain problems with law. There are examples showing that URALCHEM is at the present time in the focus of legal scandals, having proven itself a structure with dubious loyalty to minority shareholders and co-investors.

UCC URALCHEM does not possess its own funds for investment projects implementation, and the holding's funds that are currently borrowed only partially cover its existing debts. Thus, the investment projects being implemented are unlikely to be long-term and they must be just a method for temporary withdrawal of funds and its further investment in some other projects, short-term as well.

The conclusions listed above show URALCHEM as well as other companies that adhere to the similar strategies as an unreliable investor in Europe.

2. PRACTICE OF SOCIAL AND LABOUR RELATIONS

Preamble

For any company, its policy in social and labor relations is an important characteristic. This, firstly, characterizes a company in view of long-term business considerations (as a rule, business representatives counting on long-term operation in the industry try to keep high-qualified staff) and, secondly, shows to which extent the business conduct practice of the company complies with the European views on social norms and business ethics.

The following factors are important points of such a policy:

- Working conditions of employees,
- Observance of the social and labour rights,
- Long term preservation of jobs.

Nevertheless, many Russian corporations consider disregard of social norms and violation of labor rights a customary practice, which once again proves unreliability of such business structures as long-term partners and serves as a reason to beware of transfer of such an approach to social and labor issues to the EU countries.

2.1 Employees' working conditions

Work safety provision of employees is considered the main factor. However, operating equipment in contradiction to the requirements of the relevant technical standards shows that such practice is one of the most problematic aspects of the activities of these business structures in Russia.

For instance, there have been many accidents at the enterprises belonging to URALCHEM holding in Russia, which are owners-related.

Thus on February 5, 2009 at 5.21 a.m. at Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works there was an accident which resulted in human death due to decompression of fertilizer unit equipment in a nitrogen sulphate shop. As a result of the accident, an equipment operator (born in 1983) died. Yet another employee, born in 1981, was injured (closed craniocerebral injury, brain concussion, closed blade bone fracture).

However, it is evident that any accidents at the enterprises, particularly those accompanied by the emission of poisonous substances, affect employees' health in any case, even though the symptoms of such an effect can not be always observed right after the accident. Such accidents occurred several times at Kirovo-Chepetsk Chemical Works in 2009.

On June 10, 2009 at 7.05 p.m. another accident occurred in shop No.57 of the fertilizer plant. Civil defense and emergency office of Kirovo-Chepetsk made an announcement on the accident at 7.15 p.m. There was a nitrogen oxide emission due to a failure of gas purifying plant.

On June 21, 2009 between 7 and 10 p.m. a mist coming from the direction of the fertilizer plant was witnessed in districts 8 and 9 of the town.

On July 17, 2009 Kirovo-Chepetsk in the area of Vyatka River was covered by heavy mist with the smell of chlorine. Maximum permissible concentration of chlorine hydride in atmosphere was reported to have been exceeded by 100%.

According to the data of local ecologists more than 10 accidents resulting in harmful emissions to the atmosphere occurred at Kirovo-Chepetsk Chemical Works just in 2009.

On September 8, 2009 the citizens of Kirovo-Chepetsk together with chemical works employees held a mass meeting that ended with the adoption of resolution in which they above all appealed to "urge Rostekhnadzor to systematic monitoring of technology, technical safety and

duly observation of equipment maintenance and renewal” (the quotation is given in the exact wording of the adopted resolution).

Former employees of AZOT OJSC in Berezniki complained about the fact that experiments on creation of new types of products which were carried out at the enterprise and accompanied by major violation of equipment operation and safety rules, could have such consequences as large-scale explosions and emissions of chemical substances.

It was reported by mass media that within the area of Voskresensk Mineral Fertilizers enterprise for a long period of time large volumes of non-standard raw material waste in granules were stored; the workers had to break the granules manually, which put their health in danger.

Inspection of Voskresensk Mineral Fertilizers OJSC enterprise showed major violations of equipment operation which endangered health and safety of the workers. Thus, by the order of Rostekhnadzor both of the ammonia systems were stopped deemed dangerous after six years of operation, which exceeds standard time limits. One out of the two sulphuric acid systems was operating in such a mode which, according to specialists' opinion, did not ensure its safe operation. Sulfur burning furnace was operating one week in a month during which 10-12 tonnes of acid were produced, after which the furnace was stopped. Such production cycle caused direct damage to people's health as stated by mass media with the reference to the data of the representatives of Rostekhnadzor. Following the results of the inspection, Rostekhnadzor made 6 complaints against VMF enterprise.

It is worth paying attention to the fact that the state of **granulator towers** caused several questions from Rostekhnadzor representatives (by the way, the plant in Dieppe, if built, is to process dry urea into granules). The operation of the towers lasted 3 days with gradual clogging by chemical masses from the inside. After that, during 2 days, the workers were sent to break the buildups with pneumatic drills if not sledge hammers, endangering their health and safety.

Such way of equipment operation has, of course, led to accidents at this enterprise of URALCHEM holding as well. On May 19, 2009 salvo emission of mineral dust into the atmosphere from shop Ammophos-1 occurred. On July 10, 2009 there was another emission. The nature of the substance emitted into the atmosphere was left unknown to the wide public, however the owners of the land plots in a 5-km area around the enterprise complained about vegetation having been scorched on their plots.

Representatives of Rostekhnadzor stated that about 70% of the equipment at Voskresensk Mineral Fertilizers enterprise is not fit for service.

Hence, the information on operation of URALCHEM holding's enterprises shows that labor conditions at the leading enterprises of the holding are characterized by frequent accidents which endanger the health of workers, which is a negative feature of labor conditions at these

enterprises. The cause of accidents as stated in mass media papers by former enterprise workers and experts is the condition of production base (see Section 1.1.1), which is practically never renewed and violation of rules to operate the equipment installed at plants — all of which is due to the enterprise fault. Such practice has been observed at several leading enterprises of the holding at the same time.

This means that it is definitely caused by the policy of UCC URALCHEM and can be transferred to new facilities constructed by the company, which would contradict the labor conditions accepted in the western European countries, and even create the probability of at least partial transition of this practice to Europe in case of an active expansion of companies adhering to similar business principles into Europe.

2.2 Labour rights observance and long-term preservation of jobs

Another important factor is a long-term stability of jobs.

Russian press has noticed that, for instance, the same Acron OJSC placed a part of its staff under the threat of labor shedding in 2009 (http://www.compromat.ru/page_25756.htm).

Even more telling in this case is the policy of UCC URALCHEM which makes one doubt that this company is able to provide corresponding guarantees.

As stated above (see Section 1.1) in June 2008 URALCHEM became the owner of the controlling block of shares of Voskresensk Mineral Fertilizers OJSC.

And in November 2008 the enterprise management shut the plant down for the first time and began the reduction of the staff. Mass media accused the enterprise management of forcing the workers to write the letter of resignation under constraint (for example, see: <http://www.stringer.ru/publication.mhtml?Part=37&PubID=10407>). According to mass media's data the workweek for a major part of the enterprise employees was reduced to 4 days with only half size wages maintained. Note that the incident took place just several months after URALCHEM became the enterprise owner. Similar practice appears to the norm of labour relations in Russia, even though it contradicts the effective law. However, the weakness of Russian trade unions, their dependence on the management of the companies and (in case of conflict with the employer) a biased attitude of the authorities, including the judicial authority, towards them renders the attempts of resistance at the local level impossible.

In the beginning of August 2009 URALCHEM holding completely stopped the operation of the complex having terminated the whole staff of the organizations Ore-Dressing Enterprise (80 people) and Kormofos (more than 200 employees).

On September 29, 2009 at the office of the plant of Voskresensk Mineral Fertilizers OJSC a mass meeting took place that gathered together plant workers as well as activists from the wide range of parties and social movements. Participants of the meeting demanded help from the state and nationalization of the enterprise. The plant workers participated in protest actions several times which made a number of periodicals call Voskresensk a “new Pikalevo” (by analogy with a town in Leningrad region where mass protest actions of workers required personal intervention of the Chairman of the Government of the Russian Federation Vladimir Putin). According to the rating of the most socially problematic Russian towns presented to the country’s leadership by vice-prime minister of the RF Government Alexander Zhukov, Voskresensk occupied the second place mainly due to the situation at Voskresensk Mineral Fertilizers OJSC.

In December 2009 operation of Voskresensk Mineral Fertilizers OJSC was temporary shut down, as a result of which over 4.5 thousand people lost their jobs and were left without means of subsistence. As was noted by the plant labor collective in their appeal to Prosecutor General of the Russian federation, about 3.5 thousand people were terminated at Voskresensk Mineral Fertilizers OJSC during 2009 and about 3.5 thousand people were left with 2/3 of official salary maintenance.

Discontent with the policy of the holding against its workers was also shown by the employees of other enterprises controlled by URALCHEM. In particular, during the mass meeting held on September 8, 2009 the workers of Kirovo-Chepetsk Chemical Works together with the citizens of Kirovo-Chepetsk complained about extremely low wages and demanded their increase.

Thus, it can be stated that even at enterprises owned by URALCHEM holding for a small period of time mass terminations have taken place (legality of which is a matter of many complaints), production has been shut down, workers’ wages have been decreased (note that workers had complained about the rate of wages prior to reductions).

Therefore, there is a high probability that a similar attitude to employees will also characterize the policy of such business structures after they enter the West European economy. The only things that may prevent it would be a more effective organization of the trade union movement in Western Europe and timely mobilization of the public opinion.

Conclusion

Having analyzed the Russian companies policy regarding observation of social and labor rights by the example of UCC URALCHEM OJSC we can see that it very often exhibits the following characteristics:

- conditions of production base at enterprises of the holding and methods of its operation implemented by the management result in frequent accidents and endanger workers' safety and health;

- workers of several enterprises of the holding complain about the cases of labor rights violation by management representatives of the enterprises and low wages;

- at some enterprises of the holding (Voskresensk Mineral Fertilizers OJSC), several months after UCC URALCHEM had the majority shareholder of the enterprise, shutdown of production and mass terminations started; at some subdivisions of the enterprise all employees were terminated – which puts in doubt the fact that jobs created by the holding could have long-term stability;

- many enterprises of the holding became the centers of protest actions and social strain and the town of Voskresensk (where Voskresensk Mineral Fertilizers OJSC is located) occupied the second place in the rating of the most socially problematic Russian towns presented by vice-prime minister of the RF Government A.D Zhukov.

The conclusions listed above show that labor conditions at the enterprises of Russian corporations (e.g. the above mentioned URALCHEM holding) are far from the EU countries standards and, moreover, the type of employee relations adhered to by URALCHEM in Russia may be transferred by the holding to the EU countries and become a negative example for local business representatives.

3. PUBLIC BEHAVIOR OF UCC URALCHEM OJSC REPRESENTATIVES AND DEGREE OF HOLDING'S TRANSPARENCY

Preamble

Public behavior is considered one of the important characteristics of any investor for citizens and authorities of the territory where it is going to implement its new projects. The key aspects are as follows:

- relationship with public organizations and mass media being important institutions of public control. This factor is directly connected with the transparency of the holding's activity and is the most important characteristic thereof as well as of the ability to perform public control over its activity;

- the type of relationship with local authorities as an instrument of official control closest to public.

The conduct of Russian companies is often characterized by non-transparency, conflicts with public organizations and mass media, openly demonstrated ambition to have a total control over the local authorities. This shows that such business structures use all possible means to evade public control and may be interested in hiding some information concerning their activities.

3.1 Degree of transparency. Relationship with mass media and public organizations

The examples of accidents and labor conflicts at enterprises of UCC URALCHEM OJSC given in the sections above drew attention of public, environmental organizations and mass media. However, actions of the holding's employees were oriented towards non-transparency of the enterprises' activities as well as negligence towards public representatives. Similar examples refer to several enterprises of the holding. This shows that such philosophy of URALCHEM OJSC is a tendency.

The holding representatives from AZOT OJSC in Berezniki refused in an offensive manner to cooperate with the representatives of ecological organizations who tried to perform monitoring of the enterprise's activity. Thus, on November 11, 2009 when Lev Alexandrovich Fyodorov (the President of the union "For Chemical Safety", Doctor of Chemistry) arrived to the town of Berezniki accompanied by the group of the invited ecologists, journalists and citizens aware of environmental situation in the town, the management of other two enterprises of Berezniki, Soda-Chlorate LLC and Berezniki Soda Works OJSC, provided an opportunity for the group of journalists and ecologists to visit the territory of the plants and collect necessary information. While representatives of AZOT OJSC not only prevented the public delegation from accessing the plant's territory but also impeded the visual inspection of the enterprise building from outside.

After journalists and ecologists made an attempt to perform visual inspection and video filming of the enterprise AZOT OJSC in Berezniki (in particular of smoke coming from the enterprise chimney), the group of company employees accompanied by the enterprise security service tried to hinder video filming. The company representatives were not satisfied with the fact that journalists and ecologists moved away from the enterprise walls. In particular, the Deputy Director for Security of URALCHEM Management Company LLC Igor Rassyl'nykh knocked a voice recorder out of the hands of the journalist of Berezniki newspaper City Paper Alexander Lazievsky, which was partially recorded by camera crews of Vesti-Perm and Berezniki television. The security director of AZOT OJSC Vadim Domank in his turn and the head of economic security department of URALCHEM Management Company LLC Eugene

Divin verbally insulted journalists and ecologists. Employees of URALCHEM Management Company LLC also threatened journalists to break their video cameras. After the incident several cars with employees of the enterprise's security service were following the car with the ecologists and the journalists for some time.

In Kirovo-Chepetsk the editorial staff of the web site <http://www.chepetsk.ru> (an information portal of the town of Kirovo-Chepetsk, Kirov region) several times have found themselves under pressure of the representatives of another enterprise belonging to URALCHEM holding - Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works JSC. In October 2009 Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works JSC threatened to make a claim against the owner of the domain name <http://www.chepetsk.ru>. Messages of several visitors on the web portal forum were to serve as the basis for the claim as they contained the information on the use of defective gas purifying units at the production sites of Mineral Fertilizers Plant of Kirovo-Chepetsk Chemical Works JSC. On December 20, 2009, under the pressure from the company representatives, the web site <http://www.chepetsk.ru> operation was stopped for the period of 10 days. The reason for the web site shutdown as was stated in the address of <http://www.chepetsk.ru> site editorial to its readers was “enforcement and practically **open threatening** from the representatives of the openly known chemical holding alongside with the absence of adequate reaction from security agencies”.

The policy of URALCHEM holding in Voskresensk is also characterized by offensive actions towards the representatives of mass media (to be further described in details in Section 3.2).

Thus, the attitude of Russian corporations' representatives using the strategy similar to that of URALCHEM holding is characterized by the following:

- ambition to maintain maximum non-transparency of the holding activity, including problems of public character and concerning interests of citizens of the towns where the holding enterprises are operating as well as concerning protection of citizens rights for comfort and healthy environment.
- extremely offensive (even for Russia) methods of enforcement and harsh treatment of public and mass media representatives.

This shows that it is of high probability that such methods are to be used in the new territories as well, where new projects of the holding are to be realized.

3.2. Relationship with local authorities

Relationship between UCC URALCHEM OJSC and several local administrations of municipalities where the company's enterprises are situated is characterized by the ambition to achieve total control over the authorities of these towns and maintain this influence by employing any available means. This tendency is well illustrated by the level of the holding's dominance over the authorities of some towns where its enterprises are located.

Thus, the activists while trying to organize a mass meeting demanding to take measures against the management of Kirovo-Chepetsk Chemical Works and UCC URALCHEM OJSC endangering ecological situation in the town (see Section 4.1), as well as workers' health (see Sections 2.1. and 2.2) faced hard opposition from both Kirovo-Chepetsk Chemical Works representatives and municipal administration headed by mayor Anatoly Chekanov.

More obvious is the cooperation between municipal administration and URALCHEM representatives in Voskresensk. On September 29, 2009, during the mass meeting which workers of Voskresensk Mineral Fertilizers OJSC held near the plant office, an appeal to the President of Russia Dmitry Medvedev and Prime Minister Vladimir Putin was adopted which stated the following: "The activity of the plant management is concealed by the head of administration who is doing nothing to protect the workers".

Bankruptcy procedure of the unitary enterprise Housing Operating Service of Housing and Utilities was also considered to be started due to the influence of Voskresensk mayor Yury Sleptsov in order to merge it with intermunicipal sewage facilities which were on balance of the Works instead of the town or the region.

Finally, on October 11, 2009 Voskresensk mayor elections were held that were considered the most scandalous among those held on this day in Russia and caused great public discussions. Opposition representatives submitted a long list of violations of the law during the counting of votes. Protest actions were held in towns whose participants accused the town's mayor of being in cahoot with URALCHEM representatives.

However, URALCHEM representatives also took a direct part in activities which accompanied the town mayor election conflict. On October 13, 2009 the office and the cutting room of the Voskresensk cable channel VEKT (Voskresensk, Moscow region) were occupied by the security officers of Voskresensk Mineral Fertilizers JSC which is a part of UCC URALCHEM OJSC holding. The security officers took mobile phones away from the journalists and prevented visitors from entering the rooms. Representatives of the television company believe these actions of the security services of Voskresensk Mineral Fertilizers JSC to have been connected with the fact that on October 12 the Voskresensk cable channel VEKT showed a piece in the evening news about the supporters of the candidate running for mayor Gennady Egorov who tried to become members of the territorial election commission and

wrestle out the announcement of the election results. Gennady Egorov was the opposition candidate, while the representatives of *Voskresensk Mineral Fertilizers* JSC supported the other candidate, acting town mayor Yury Sleptsov. The blocking of VEKT office and the studio was released only after the representatives of Voskresensk Mineral Fertilizers JSC found out that the video clip with the news item had already been downloaded on Youtube.

The events that took place in Voskresensk are certainly not unique. Many Russian companies are accustomed to a model of relations with the municipal authorities which implies the subordination of officials to the direct influence of the holding. One can recall the long-standing struggle between the trade unions and Norilsk Nickel for the control over Norilsk city hall, the experience of Siberian “earth oil towns”, or Valentin Urusov’s case in Yakutia when the local militia arrested the trade union leader who had marched out against ALROSA company, or many other similar examples. If there is a threatening possibility of people not related to the company come to power of the town, as it happened in Norilsk or Voskresensk, the company representatives use rough measures to avoid it at all costs. There is a risk that such practice might be used by such companies’ representatives in those municipalities where new projects of the holding are being implemented; Of course, it is impossible to ignore the difference between the municipalities of Western Europe and Voskresensk, Norilsk or provincial towns of Yakutia, but one should remember that people tend to repeat those methods which have already brought them success before. So, attempts to put local authorities under direct control of business structures can not be ruled out. Even if these attempts fail to bring success, they should be regarded as a potential threat.

Conclusion

The analysis of the practice of some Russian companies, as was demonstrated by the example of UCC URALCHEM OJSC, shows that the activity of the company is characterized by its ambition to maintain maximum non-transparency.

For this purpose the company uses rough enforcement on independent mass media and public organizations as well as subordination of the local authorities to the influence of the company, interference of the holding representatives in the political process at municipality level. There is a risk that such practice might be used by the holding representatives in those municipalities where new projects of the holding are being implemented.

4. ON ENVIRONMENTAL SITUATION AT ENTERPRISES OF URALCHEM COMPANY

Preamble

Russian companies' policy is often characterized by lack of informational -transparency in environmental issues. Even tragic events connected with the multiple incidents and emergency cases at the enterprises that led to the drastic environmental degradation in the regions of their activity cannot make the plants\ management seriously alter their approach. According to experts, the catastrophic ecology situation has developed at many enterprises of Russian chemical industry, due to considerably worn-out state of the equipment, shortage of qualified personnel and carrying out unsafe engineering experiments for a new production start-up in order to gain a here-and-now profit.

As an example of various aspects of such an approach, the situations at several Russian enterprises can be reviewed.

4.1. B.P. Konstantinov Kirovo-Chepetsk Chemical Works JSC (KCCW JSC), Kirovo-Chepetsk, Kirovsk region

The plant construction began in 1938. However, due to the Second World War it was put into operation in 1946 only. At the time of the USSR the plant was under the Ministry of Medium-Scale Machine Building that was also responsible for the activity of the development of nuclear and defense industry. Therefore, the plant fulfillrf many orders for the enterprises of those industrial areas.

At present radioactive waste storages and production facilities for storage of KCCW waste, located in the water protective zone of the Vyatka River, are the main environment threats in the region. Since 2003 all radioactive nuclide production and storage facilities have become the national property. There are 473 thousand tonnes of radioactive hazardous waste including 53 thousand tonnes of medium level waste and 384 thousand tonnes of low level waste in the storages. A part of production buildings and storages of KCCW contaminated by plutonium and uranium is in emergency condition and is a source of additional radioactive nuclide discharge into the environment. Prosnoye Lake being in close proximity to the plant is contaminated with radioactive waste. A source of radioactive nuclide discharge into the lake was the output by Kirovo-Chepetsk Chemical Works until 1992. The lake inspection revealed that the radioactive pollution area is a hard-to-reach wetland. The second removal of technogenic deposits from the lake is difficult as the surface of technogenic deposits is grass-covered, there is a compact gypsum crust everywhere at a depth of 0.5 – 0.6 m from the lake bottom.

In 2001 the first deputy Minister of the Russian Federation on the atomic energy passed the design assignment for feasibility study of actions for decommissioning, bringing effective standards into line with the rules of facilities for treatment of radioactive wastes and radioactive waste storages at KCCW JSC. Estimated cost for execution of such actions amounted to 41 mln. roubles. However a problem regarding allocating the mentioned sum has not been resolved today.

In addition numerous inspections of KCCW being performed by different authorities have revealed that the plant violates the water law in the course of its economic activity. Particularly KCCW JSC discharges sewages within the boundary of the water intake sanitary area in Kirov. According to Clause 44 of the water law of the Russian Federation discharge of sewerage and drainage water into water bodies located within the boundaries of the sanitary protection of drinking water and household sources is unlawful.

As a result water in the largest water source – the Vyatka River – does not meet the effective standards and parameters. 45 % of all sewage in the region is discharged to a level of Kirovsk water intake. The largest contaminator is Kirovo-Chepetsk Chemical Works that discharges waste within the second line of the water protection area of Kirovsk water intake. Only in 2008 along with the sewage KCCW discharged 30 thousand tonnes of pollutants into the Vyatka River, among them were ammonium nitrogen, nitrate nitrogen and other hazardous chemical substances.

Over the last five years the plant (KCCW has been under control of structures of D. Mazepin since 2004) repeatedly undergone integrated checks from the side of different agencies including the Ministry of natural resources, Rosprirodnadzor and Rostekhnadzor. The inspections have revealed the most serious violation of environment and pollution control regulations, during these inspections the facts of the repeated increase of maximum allowable concentration of hazard substance sequence in the plant emissions have been revealed, the approval documents were issued with the violation of all specified regulations have been found, non-observance of the terms of contracts for water use by KCCW has been revealed. In October 2009 the specialists of the ecological organization "Green Patrol" made the results of its studies public which contained the information about the environment pollution by KCCW. "There was registered pollution of the Yelkhovka River in the area of Kirovo-Chepetsk petroleum storage depot and KCCW with mill water. There was a revealed excess of maximum allowable concentration of oil products – in 6.4 times, total iron content – in 4.5 times", - was said in the report.

However, despite its outrageous violations of ecological norms, URALCHEM administration cheerfully reports about significant investments made by the company to solve environmental problems.

However according to the mass media information the situation is absolutely opposite to that what has been shown by URALCHEM managers in their public speeches. Particularly the information about this complex environmental situation at the enterprises of URALCHEM has happened due to progressively decreasing attention of the company administration to the environmental projects. Perhaps a reason for such an attitude is that the holding experiences financial difficulties at the present time. Net indebtedness of URALCHEM reaches 2 bln. dollars; the company's assets are pledged in creditor banks against credits. Meanwhile the private income of Dmitry Mazepin – the owner of URALCHEM according to the different estimates amounts to about 800 mln dollars. However, the owner has appears to have no wish to invest his own money earned due to URALCHEM enterprises' activity.

According to the data of the State Institute of nitrogen making industry in 2008 at Kirovo-Chepetsk chemical plant the number of emergency shutdowns of the main machines increased sevenfold to 2007, and the idle time period increased fourfold.

In September 2009 in Kirovo-Chepetsk a mass meeting of local citizens took place, during which the participants called for nationalization of KCCW and impeached credibility of URALCHEM administration having so far been unable to get over environmental problems. According to the meeting participants, in recent years unapproved emissions of harmful pollutants in the atmospheric air took place regularly at Kirovo-Chepetsk chemical plant whereby the local inhabitants suffered. According to the results of the meeting the resolution with an urge to the President of Russia, Dmitry Medvedev, the Chairman of the Government of the Russian Federation, Vladimir Putin, speakers of both Houses of Parliament to Sergey Mironov and Boris Gryzlov, and also the governor of the Kirovskaya oblast, Nikita Belykh, were adopted. In this resolution the inhabitants demanded to create an impersonal and open environmental control system irrespective of KCCW; to involve Rostekhnadzor for regular control of observance of technology, technical safety and timely repair, and equipment update. The protesters also decided to set up “Committee of Saving” among initiative inhabitants of Kirovo-Chepetsk to control activity of enterprises and administration of Kirovo-Chepetsk as for ecology.

On February 5, 2009, at Mineral Fertilizers Plant of KCCW (MFP KCCW) there was a pipeline break with the further partial failure of pipeline equipment whereby one man died and the plant area was contaminated with sulphuric acid. Meanwhile the supervisors from Rosprirodnadzor department within Kirovsk region, which had arrived to carry out the required

measurements of pollutants, were not admitted to the plant area. According to the results of the subsequent check upon the break performed by a commission of Rostekhnadzor, it was established that at a violation of explosion safety rules took place at the stage of preparation of initial data for technological process, switching off locking to parameters, inconformity of technological process to parameters provided by the design documentation, in particular, to critical temperature values. In addition the commission has found that at the enterprise there was “unsatisfactory organization of control over observance of industrial safety requirements at hazardous facilities”.

The accident happened while producing ammonium nitrate at a nitrosulphate recovery plant.

The commission found out that when the supply of nitric acid solution to ammonium nitrate converter was supposed to be switched off, the sulphuric acid was still supplied into it and reacted with ammonia. As a result, the temperature jumped in the converter and in the salt melting pipeline, which in its turn resulted in explosion.

On June 10, 2009 an incident happened in shop No. 57 of KCCW again. As a result of damage at the gas recovery plant, nitrogen oxide emission occurred. In total, according to the data of local environmentalists, within the last year more than 10 off-normal situations have happened at KCCW which resulted in emission of harmful pollutants into the atmosphere.

4.2. AZOT OJSC, Berezniki, Perm region

The construction of the enterprise began in 1929; the first output was produced in 1932. The environmental situation at one of the key enterprises of URALCHEM is also far from being ideal nowadays. Within 2008 – 2009 at the enterprise incidents of different kinds took place, which resulted in emission of pollutants into the atmospheric air. However, URALCHEM and AZOT administrations did not reveal the data on the enterprise environmental problems, trying, to hold it back from public to the maximum.

In particular on July 11, 2009 there was an ammonia emission at AZOT. Official data on the emergency were not made public, however, it is known that the toxic gas cloud travelled towards the residential districts of Berezniki.

On July 14, the same year, there was a large-scale fire at AZOT. The turbine oil was on fire at the compression compartment of shop No. 1a. The fire damaged the shop cable ducts and windows. The fire was given the 3rd complexity class. 16 units of equipment and 56 persons of the staff were sent for suppression. On arrival of the fire fighting units, tight black smoke blew off from the windows of the first floor windows of the shop building. In one hour the fire was

brought under control, and nobody suffered. The cause of fire was violation of the production process procedure (the turbine oil supply pipeline was unsealed and, as a result, contacted with a steam pipeline).

Last year, in November the security of AZOT OJSC in Berezniki initiated a scandal and a fight with the environmentalists and journalists when those tried to inspect the territory adjoining to the chemical plant.

Using swear words and threats to use force, the personnel of URALCHEM prevented famous Russian environmentalist and scientist, Lev Fyodorov, who arrived to Berezniki from Moscow, from entering the plant, as well as journalists accompanying him who intended to make a video record of fuming plant pipes of AZOT.

On November 12, 2009 when the scientist and a group of journalists inspected the town territory near AZOT OJSC as the inhabitants reported of regular emissions, a group of the enterprise's leaders left the plant office being accompanied by the security men. Threatening with beating and stoking up the war of words with the use of swear words, the personnel of URALCHEM covered camera lenses with hands and tried to knock the equipment out of the journalists' hands. In order to avoid the fight the cameramen had to stop recording the fuming plant pipes, and the ecologists had to stop their inspection. After the incident several cars of safety men from the URALCHEM branch in Berezniki were following Lev Fyodorov's car trying to exert psychological pressure.

In December 2009 an affiliated company of AZOT OJSC – Promkanal occupied the first place among the enterprises which discharged the greatest amount of pollutants into the water bodies of Perm region. This rating was presented by the Independent Ecological Rating Agency (NERA), one of the most competent ecological organizations in Russia having close cooperation with the World Bank. Rating of NERA demonstrates that only this industrial facility discharges nearly a half (44 %) of total amount of pollutants into the Kama river. In this regard according to the reports of ecologists Promkanal gives no information about measures being introduced or planned to change this situation.

In addition on December 11, last year in the course of the session of the Government Commission in Berezniki a leader of Rosprirodnadzor in Perm Region claimed that “the most critical environmental situation in Berezniki has occurred at Beraton OJSC and Promkanal LLC – affiliated company of AZOT OJSC (UCC URALCHEM OJSC)”.

It should be noted that leaders of URALCHEM and AZOT prevented representatives of the municipal administration in Berezniki from receiving any information about the environmental situation at the enterprise, which is a lawful right of public officers. Therefore, such unlawful non-transparency of AZOT in respect to the environmental matters have resulted

in a conflict with the town administration that might be the beginning of the judicial proceedings.

4.3. Voskresensk Mineral Fertilizers OJSC (VMF OJSC), Voskresensk, Moscow region

VMF is one of the oldest enterprises of mineral fertilizers industry in Russia. It was put into operation in 1930. At VMF there are extensive environmental problems which are in no way solved by URALCHEM leaders. The causes of most of them are the extremely worn-out equipment, a part of which has not been modernized since the plant was founded, and unsafe engineering experiments that were started by URALCHEM specialists after gaining control over VMF in June 2008.

Historically, VMF was manufacturing phosphoric fertilizers only, however, URALCHEM leaders decided to implement manufacturing various ranks of compound fertilizers at the enterprise. But they did not manage to ensure suitable quality of the new products, despite multimillion investments in implementation of this project and all the time spent. As a result, a part of equipment, already far from being new, has finally got out of order and is now beyond repair. Experts suppose that manufacturing of compound fertilizers at facilities for ammonium phosphate fertilizer production is a technological adventure. After all, such transition to a new production requires not only a design study, but also actual month-long reconstruction of the whole shop, including processes of granulation and finished goods drying.

For a long time VMF activity was a source of environment pollution in Voskresensk. Since VMF passed under the control of Dmitry Mazepin's holding URALCHEM its managers have shown persistent negligence of environment safety matters. Voskresensk inhabitants regularly drew the attention of regulatory authorities to non-observance of the required environmental standards and a great number of violations at VMF. In its turn, in May of last year Rosprirodnadzor Department in the Central federal district directed some regulations to the address of Voskresensk Mineral Fertilizers in connection with the violation of environment standards by the enterprise, and also declared that it would plan cessation of the VMF activity due to numerous outrageous violations in the sphere of ecology. Explaining the tough line of the department, Deputy Head of Federal Service for Nature Management Supervision Aleksey Akulov declared that such neglectful and disorderly attitude to environmental safety matters from VMF leaders is unacceptable.

Recently, the emissions of harmful pollutants into the atmospheric air have regularly taken place at VMF. On May 19, last year salvo emission of mineral dust into the atmosphere from shop Ammophos-1 occurred. According to the data of Rosprirodnadzor this emission had

such concentration that it could be seen visually at a distance of 300 - 500 m. On July 10, at VMF there was a salvo emission of unclear substance that resulted in vegetation being scorched at the area of horticultural cooperative “Khimik-1”, “Khimik-2” and “Khimik-3” (5-km area around the enterprise).

In June of last year Rostekhnadzor had to prescribe an integrated check of VMF. Inhabitants of Voskresensk and the personnel of VMF OJSC made Rostekhnadzor pay close attention to the technical conditions and the environment safety of the plant in Voskresensk having sent open letters to the address of the Presidential Administration of the Russian Federation, the State Duma and members of the Public Chamber. One of the letters was addressed to the head of Sberbank, German Gref. Inhabitants of Voskresensk asked Sberbank to take the stock of VMF shares being in pawn of the bank under its control. They warned about unsafe technological experiments being performed by the new proprietor which could lead to a technological catastrophe.

On September 19, 2009 in Voskresensk there was a meeting of inhabitants where they appealed to the President of Russia, Dmitry Medvedev and the Chairman of the Government of the Russian Federation, Vladimir Putin, urging them to nationalize the enterprise which was actually on the verge of bankruptcy, whose proprietor, URALCHEM, could not provide guaranteed employment of personnel and production safety. Instead, the town is periodically exposed to the emissions of aggressive chemicals from the factory facilities, as the participants of the meeting noted. The statistical data illustrate that more and more children have been born recently in Voskresensk who have congenital respiratory diseases, and only decisive actions of authorities can stop it.

At the present time, the technical condition of VMF can be marked as catastrophic. Ammonia production was put into operation in 1970 and the equipment service limit has been long time exceeded. According to the report of Rostekhnadzor all “high-pressure vessels” i.e. the ammonia production equipment should have been decommissioned in April, 2007. In addition, VMF phosphogypsum disposal site has completely worked out its capacity and it is used above its level. This means that, when the design levels are exceeded, the disposal mass may start spilling as batter on a frying pan.

The town ecologists have already been raising the alarm, in April of last year they sent a letter to Rostekhnadzor with their request to check execution of regulations of this department which was issued to VMF in 2007. And the fear of ecologists can be understood, ammonia converters which are about 40 years old are extremely dangerous. Ammonia leakage in the big town is not only an environmental problem: ammonia cloud is in fact a chemical war gas.

On December 4, 2009 the proprietor of URALCHEM, Dmitry Mazepin, declared the complete stop of VMF. However, it happened due to his inept management resulting in critical condition of the enterprise, according to the information of mass media, but not due to his sudden worry about the ecology. Having walked back raw materials purchasing – apatite concentrate – from the main supplier, Apatite OJSC (being a part of Fosagro holding), Mazepin set the plant on the verge of survival, having diminished its production volume down to the lowest level in its lifetime. Mazepin explained this stop with the fact that the enterprise did not bring profit, and he laid the corporate conflict with Fosagro to charge; this conflict has been lasting for about one and a half years and has become a large-scale suit covered on the pages of various mass media editions.

Ecologists are seriously worried about the decision of Dmitry Mazepin to stop VMF. They worry about uncontrolled storage of considerable quantity of hazardous chemical substances at VMF and they are planning to make the state to take vigorous measures in regard to the owner of VMF. Today inhabitants of Moscow suburbs are sure that the plant's stop without performance of special complex of actions for preservation of dangerous chemical production may provoke environmental situation breakdown. Considering that Voskresensk ecology has recently been far from being called ideal, this breakdown can set Voskresensk on the verge of technological catastrophe. Tens of thousands tonnes of hazardous chemicals – waste of mineral fertilizer production, non-standard raw materials – appeared left at the enterprise territory. Compounds of ammonia, chlorine, phosphorus, sulphur, plumbum, arsenic, potassium being stored neglected at the deserted workshops can be explosive and provoke an emergency regarding emission of virulent toxics. The abandoned dumps of scrap metal and industrial waste impregnated with toxic compounds may cause ingress of harmful elements into underground waters and the water of the Moskva river which will undoubtedly reflect on potable water quality. In this situation both the environment and people whose health and life are under threat can seriously suffer.

In connection with the developed situation an initiative group of citizens in Voskresensk has invited the head of ecological group “Green Oecumene”, Roman Yushkov, a representative of such a competent public organizations as “International Socio-Ecological Union» and the All-Russia union “For Chemical Safety”. Mr. Yushkov met with the worried citizens and personnel of the enterprise. A public delegation visited the enterprise territory and inspected purification treatment plants at VMF. As they say in the press release of “Green Oecumene”, Mr. Yushkov has made a critical assessment of this situation and has noticed that fears of the inhabitants are justified. In particular the ecologist was alarmed by the story of former workers of VMF about the specificity of toxics storage in workshops and violations of procedures in regards to handling

chemical compounds. According to the workers, the administration “made strange experiments at the enterprise which resulted in a lot of failures and total equipment degradation”.

At the end of the meeting with the inhabitants of Voskresensk, Roman Yushkov said he was planning to ask for support from the president of the Union “For Chemical Safety”, Lev Fyodorov, and to insist on inspecting VMF with participation of public representatives, EMERCOM and state environmental authorities. However, it is not clear how URALCHEM known as inhospitable as it is, will react to this coming of the inspection team. Earlier the holding prevented representatives of Rostekhnadzor and Rosprirodnadzor from inspecting VMF and the rest of enterprises of URALCHEM in every possible way, and also refused to accept and sign the inspection reports that were unsatisfactory.

4.4 Samotlor Oil Field

As in many other cases, the practice typical for the companies comprising URALCHEM is nothing outstanding or unique in Russia. For comparison, examples may be drawn out from the experience of the most important industry in Russian economy – the petroleum industry. In the Russian Federation, regular and large-scale oil spills occur during oil extraction and handling within the field territory and, for instance, during transportation. For example, according to the ecologists’ information, only on the territory of Samotlor Oil Field, where oil is extracted by TNK-BP company, over 4,000 hectares of area covered with oil spills is registered. This situation is long-standing and reduction of the oil contamination of the area is insignificant. The causes of the current situation, on the brink of environmental collapse, not only include the low level of control by the authorized state inspection bodies and the involved corruption schemes, but also, primarily, the environmental policy of the companies themselves. Most of these companies regard oil extraction in the Russian Federation as an uncontrolled procedure of resource withdrawal not subject to Russian or international environmental audit. Multiple ecological organizations’ protests and publications in mass media have not led to any significant improvement of the situation. Such a practice leads to gaining dishonest competitive advantages and double standard system development, which is especially noticeable in case of international companies, in relation to environmental control standards application in Russia and at fields in other countries.

Many Russian companies are in a very tight situation from the viewpoint of the technological condition of the equipment at their enterprises. The technological heritage at the plants that they have got from the Soviet period is now in an emergency state that leads to numerous incidents including loss of life. Certainly, their administrations are guilty of it, as they

have minimized purchasing new equipment and modernization of the enterprises and created intolerable working conditions for highly skilled specialists at the plants. Besides, instead of the structural interaction with regard to environmental matters with administrations of settlements where the company carries out business, with local residents, ecological organizations and representatives of the corresponding government institutions, the administration top-management, as can be seen on the example of URALCHEM leaders, holds back the required information on incidents and failures that happened and compromised people's life and health, kept out of the enterprise territories to perform duties of representatives of state authorities, prosecute and threaten members of the ecological organizations and journalists.

It should be noted that the tragic incidents which result in loss of life, and emissions of pollutants often take place at the enterprises (for instance, in URALCHEM structures as was showed in 4.1 to 4.3) during implementation of unsafe technological experiments for manufacture of new products by means of outdated equipment. Instead of the corresponding preparation and going to the necessary expense for modernization, the plants owners try to start up production of new products by means of facilities designed for absolutely other ranks of fertilizers in order to gain a hear-and-now profit. This has also resulted in accidents.

Such a tactics proves that the representatives of these business structures are not interested in long-term operation in the industry branch and casts some doubt on their reliability as investees.

CONCLUSION

Analysis of the activities of some Russian corporations on the example of UCC URALCHEM OJSC activity shows that:

- Business structures adhering to a similar strategy are unreliable investors. Their readiness for long-term investment projects (and availability of the corresponding finance) causes serious doubts.

- The type of the employee relations practiced by such companies in Russia is incompatible with the European social standards but may be transferred by the corporations' owners into the EU and become a negative example for local business representatives.

- Such companies' activities are characterized by attempts to keep maximum non-transparency. For this purpose the company uses rough enforcement on independent mass media and public organizations as well as subordination of the local authorities to the influence of the company, interference of the holding representatives in political process at municipality level.

There is a risk that such practice might be used by the holding's representatives in those municipalities where new projects of the holding are being implemented;

- Their work involves regular emergencies at their enterprises and extensive ecological risks resulting from these emergencies (which is especially well illustrated by the example of the above mentioned enterprises of URALCHEM holding). The predominant approach to the technological process is characterized by the aspiration to draw out maximum profit from the production at minimum expenses for new equipment and labor safety. This imposes threats for ecological situation in the municipality and neighbouring areas.

The expansion of such type of companies into the EU countries is most likely to have no favourable effects on these countries but, on the contrary, will be associated with a number of risks including the threat of the transmission of holding's Russian working practices into the EU. There is no ground for thinking that such companies with their inherent attitude to hired employees will be able to create a significant number of duly paid working places on a long-term basis. On the contrary, it is more likely that their competition will be conducive to labor market worsening and social standards degradation.

Russian citizens have faced these methods of business for many years; for it is extremely difficult to oppose them in conditions of a country where free trade unions are weak and subjected to pressure from the authorities, public associations are disregarded by governing institutions and business, and press freedom faces the restrictions. Nevertheless, solidarity of West European social movements – primarily, environmental associations and trade unions – not only can prevent the transfer of such a practice on the territory of European Union, but also can change the situation in Russia itself. In conditions of globalization, business uses the opportunities that open for it in the countries with less developed democratic institutions for changing the world market situation and, finally, for public control slacking and social standards deterioration in more wealthy and democratic countries. But the opposite also takes place – civil society control, trade unions and social movements' pressure on governing bodies and business structures in democratic countries influence the overall condition of global capitalism by restraining the most cruel and environmentally unsafe forms of business. Capital expansion of the peripheral countries to Western countries that started in 2000-s testifies that the rough methods of capital accumulation typical for periphery are a distinctive competitive edge, which creates a temptation of using the same methods in Western Europe, although it has been long since they are regarded foretime features in these countries, under the influence of the democratic public and pressure from the labor movement. The success of the new transnational corporations being created in peripheral countries can become an infectious destructive example for old Western corporations. This causes an acute necessity of fighting against such a threat.

Expansion of those who manifests such opinions should not be permitted in the economic life of the EU countries– and then an additional possibility will turn up to struggle effectively against their methods on global basis.