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CASE STUDIES & TEACHING CASES

The political risk of the Ukrainian war for the global fuel market: the case of British Petroleum in Russia

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THE UKRAINE WAR AND THE GLOBAL FUEL MARKET

On February 24, 2022, the President of Russia, Vladimir Putin, announced what he called a "special military operation" on Ukrainian soil under the pretext of unilaterally defending the breakaway republics of the Donbass region located in eastern Ukraine (Annex 1). For international analysts, however, the invasion was a response by the Russian government to the "extension" of the borders of the North Atlantic Treaty Organization (NATO) military alliance towards Eastern Europe, especially after the Russian invasion of the Crimean Peninsula in the south of Ukraine in 2014, a territory originally ceded to Ukraine by the Soviet regime in 1954. But the importance of these regions of Russia and Ukraine for world geopolitics is historical since the first conflicts between both territories date back to the 16th century. However, after the disintegration in 1991 of the Union of Soviet Socialist Republics (USSR), Ukraine, previously under Soviet rule, began to play the role of a buffer zone[1] between the borders of East and West.

Immediately after the invasion, pressure from the West led by the United States and the European Union fell on Russia. From that moment on, what could be observed was a series of embargoes and imposed sanctions that included at first the freezing of assets of the Russian Central Bank abroad, the suspension of Russian banks from the swift international payment system, the closure of airspace for Russian airlines, the suspension of international trade with the country, and the banning of Russian media along with personal sanctions against Putin and his allies. In addition to these, Western European countries, until that moment very dependent on Russian oil and gas, began to seek supply alternatives in order to gradually replace their importations.

The pressures on Western companies doing business there were no different. In the few days that followed the invasion, a series of corporations that were symbols of the political reopening of the 1990s ended up leaving Russia such as McDonald's, Coca-Cola, Visa, Toyota, and Nike in addition to the oil giants ExxonMobil, Shell, Total, Equinor, and British Petroleum (BP) itself. The official communication announcing BP's departure came on February 27 through its CEO Bernard Looney, who publicly announced the company's intention to abandon its 19.75% shareholding in Russian state oil company Rosneft, with which it had maintained a partnership since 2013.

In addition to a write-down that would cost BP around GBP$ 25 billion on its books, the company would also end up losing access to about half of its oil and natural gas reserves, negatively impacting nearly a third of everything the company had produced in 2021. By June 2022, around 300 multinationals had completely left Russia in addition to another thousand who suspended business with the country for an indefinite period.

[1] Term in political geography that designates a region located between hostile blocs or countries and which, by its very existence, has the role of preventing conflict between the parties. Generally, truly independent buffer states opt for a neutrality orientation in their foreign policy. Retrieved from https://www.merriam-webster.com/dictionary/buffer%20state

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COMPANY HISTORY

The history of the precursor of British Petroleum dates back to the beginning of the 20th century, more precisely to 1901 when the British investor William D'Arcy obtained his first concession to explore the oil basins in the region of Persia, now Iran. The search for oil in the region, however, took some time and was only possible after financial support from the also British Burmah Oil Company in 1905, which transferred to the company the share control of 97% of the capital of the newly founded Anglo- Persian Oil Company (APOC). The discovery of oil in commercial quantities in the southwest of the region in May 1908 enabled the company, which would become the forerunner of BP, to experience a strong international expansion in the following years, when in the 1920s it also began to explore basins located in Canada, South America, Africa, and Europe.

The world and the Middle East region, however, were going through politically troubled times. In 1935, after a military coup that overthrew the Qajar dynasty, the company was renamed Anglo-Iranian Oil Company (AOIC) after the country's name was changed to Iran in the same year. Under the control of the Pahlevi dynasty, the country was experiencing a period of great modernization inspired by the Western model, which led to its opening to companies and foreign capital. The Second World War (1939-1945), however, was one of the most devastating for the company, which after contributing to the war effort by supplying the British government's fuel lines, saw most of the half of its tanker fleet sunk by the blockade promoted by the Axis countries led by Nazi Germany.

International politics and fossil fuels have always been linked since the moment oil and gas became the main sources of energy in developed countries in the post-Industrial Revolution at the beginning of the last century. The granting of exploration rights to state-owned basins almost always involves complex negotiations between large corporations and foreign government branches. In view of this, in the early 1950s, a period of crisis followed for the company caused by the nationalization of all AOIC assets in Iran, which at that time represented the largest British investment abroad, as pointed out by *The New York Times* (2000). After three long years of negotiations led by the US government, in 1954 it was possible to restore Iranian oil production and exports to the rest of the world. From that moment on, the then Anglo-Iranian Oil Company was renamed British Petroleum Company, being responsible for 40% of the consortium's assets.

Despite the Cold War, the 1960s were a period of great investment, especially in research and development. These efforts led the company to discover oil in the English waters of the North Sea in 1965. The prospection for new basins followed as a diversification strategy and dilution of the high political risk found in the Middle East region. In 1969, one of the largest oil basins in the world was also discovered, this time located in the frigid region of Alaska in the extreme northwest of the United States. Thus, the need to manage these reserves led the company to acquire 25% of the Standard Oil Company's stock portfolio, a shareholding that until 1975 would become majoritarian. This growth strategy, through mergers and acquisitions, inaugurated at that moment what would be widely used by BP in the years that followed.

During the 1970s, in the midst of what became known as the first (1973) and second (1979) oil shocks, Western countries lost access to reserves produced by the Organization of Petroleum Exporting Countries (OPEC)[2], which brought greater need for diversification for British Petroleum. In order to level out its sources of income that were highly impacted by the blockade, in addition to entering other energy markets such as coal and minerals (BP Coal), the company also created a new internal division that would become known as BP Nutrition responsible for offering protein-based products to serve the animal and human nutrition sectors.

In the 1980s, in turn, the company underwent a profound restructuring process. In 1986, its protein division acquired the North American Purina Mills, at the time one of the most traditional in the sector. However, the very next year, in 1987, the British government sold the shareholding it still owned in the group. In 1988, the group continued with its expansion strategy through mergers and acquisitions with the purchase of Britoil as part of the objective of expanding its exploration area in the North Sea, in addition to seeking large reserves in areas still unexplored in the world. This now complete privatization of BP meant that the group received new injections of capital and was slowly getting rid of its non-essential and less productive areas such as minerals and nutrition until the year 1990 to in fact focus on its core business, which resided in the exploration, refining, transport, and sale of oil and its derivatives.

[2] An intergovernmental organization formed by 13 countries (Saudi Arabia, United Arab Emirates, Iran, Iraq, Libya, Kuwait, Nigeria, Algeria, Angola, Gabon, Congo, Equatorial Guinea, and Venezuela) founded in 1960. Its current members own more than 80% of the known oil reserves in the world, which gives the group great influence on global product prices. Retrieved from https://www.opec.org/opec_web/en/about _us/24.htm

After a period of financial recovery in the early 1990s caused by the drop in the price of the commodity in the world, by 1995 it was already possible to observe the greatest expansion of the group, which would become one of the largest energy companies of the world. In 1998, the group led the largest industrial merger in the world seen until then when it joined with the American Oil Company (Amoco). This new arrangement, which had to be reviewed by the US Supreme Court, was also important in launching BP into the retail market as it gained access to the thousands of Amoco gas stations throughout the US market. Amidst the growth of discussions on global sustainable development and after a new round of acquisitions of Atlantic Richfield Company (Arco) and Burmah Castrol, in 1999 BP changed the meaning of its logo to a new acronym, which came to represent "Beyond Petroleum", in order to better exploit the potential of emerging renewable energies.

With the turn of the millennium, in the 2000s, BP inaugurated a new strategy of betting on "cleaner" initiatives that could bring a more sustainable return to the affected societies. During this period, it was possible to observe the inauguration of stations with electric autonomy through the use of alternative energy sources in addition to the development of a less polluting fuel line such as EcoSuper or one that presented better performance such as BP Ultimate in the year of 2003. In 2005, BP Alternative Energy was founded, a new division entirely designed to invest in clean and renewable energies such as solar, wind, and hydrogen cells so that they could propose alternatives that would reduce the company's carbon footprint, but on several occasions accused of greenwashing[3] by organizations such as Greenpeace.

Until 2010, BP was considered the third largest energy company in the world behind only Exxon Mobil and Shell. With operations in more than 80 countries around the world and about 23,000 gas stations, mostly located in the North American market, until that same year BP had 80,000 employees and 17 refineries, which allowed the company to produce around 4 million barrels a day and reach an annual turnover of around 240 billion dollars. The company also claimed to regularly maintain total reserves in the range of 18.5 billion barrels, being only behind to Exxon Mobil in this subject. With a market value estimated at US$ 88 billion between 2003 and 2004, the company reached the top 2 of the Fortune ranking, which identifies the most valuable companies in the world in the period. Until the eve of its first agreement with the Russian giant Rosneft in 2011 — the pivot of the events that would follow — the BP group was considered the fourth most valuable company in the world.

BP IN RUSSIA

After the fall of the Berlin Wall in 1989 and the disintegration of the USSR, the early 1990s was a period of great opportunity for brands from the West who wanted to enter the markets of the former Soviet republics. After decades living behind the Iron Curtain, Russia, owner of one of the largest oil and, above all, natural gas reserves in the world (Annex 2), needed a solution to continue exploring these energy sources, which are still exclusively owned of a state system. The Russian government's strategy of ceding assets and shareholdings in state-owned companies from the Soviet Union period in exchange for investments and expertise from foreign companies inaugurated a period of relationship between the country and many other oil companies, investment banks, and Western service providers.

BP's relationship with Russia began with the opening of a commercial office in the capital Moscow in 1990 so that the company would be closer politically and geographically to the vast oil fields located in the Siberian region. Economically, the country was going through a serious economic crisis with high inflation and the ruble, the local currency, in sharp devaluation. Russia at that time held 7% of the oil reserves and about a third of the natural gas in the world. In addition to all the political complexity of a territory full of power games and oligarchies[4], the local risks did not stop there and also reached the operational aspects. The country, however, was still seen as a new hope for diversification after the company lost access to Middle Eastern fields during the 1970s.

[3] Practiced by companies, public or private industries, non-governmental organizations, and even governments, it is basically a marketing strategy that promotes sustainable speeches, actions, and advertisements, but which are not sustainable in practice. Retrieved from https://corporatefinanceinstitute.com/resources/esg/greenwashing/

[4] Characterized by a small interest group that controls social and economic policies for their own benefit. Term also applied to social groups that monopolize the economic or political market of a country, even if it is "democratic".

After an initial prospection, BP managed to secure an exploration area in the north of the country. The company's great movement in Russia, however, only took place in 1996, when it invested USD 571 million to set up a network of gas stations. A year later, in 1997, it made its first societal move by acquiring 10% of Sidanco, a Russian oil company run by oligarch Vladimir Potanin. However, after just two years of investment and highly profitable operations, the BP and Sidanco deal began to deteriorate. In 1999, Sidanco filed for bankruptcy in a remote court located in a Siberian town. The company's assets, in turn, were acquired in a kind of liquidation by another Russian oligarch, Mikhail Fridman, owner of Tyumen Oil Company (TNK).

At that point, BP had already lost about USD 200 million of its initial investment. Still, despite the perceived high political risk, instead of walking away, the company expanded its investments by acquiring an additional 15% of what was left of Sidanco's assets. Years later, in 2003, after a long period of a highly troubled and, at the same time, profitable relationship for the parties, BP and TNK agreed to enter into a 50:50 joint venture, which combined the remaining assets of Sidanco and TKN with BP's investment in gas stations. In the agreement, BP still had to invest an additional USD 8 billion in what became known, according to *The New York Times* (NYT), as the largest foreign investment ever made in Russia until then.

Vladimir Putin had already been elected president in the 2000s and since then was seen by company executives as a great reformer capable of erasing the country's past and placing Russia in fact in the 21st century. The signing of the agreement between BP and TKN was so important for the relationship between Russia and the West that it was signed in front of the then British Prime Minister, Tony Blair, during Putin's official trip to England. In the same period, in 2003, other oil giants such as ExxonMobil and Shell jointly invested more than USD 20 billion in prospecting and exploration agreements for oil wells in the country according to NYT data. By 2008, the export of Russian oil and natural gas to Western Europe and the rest of the world had already become a reality on a large scale.

In 2011, the company signed a new exploration agreement that involved a share swap with Rosneft, an oil giant controlled by Putin ally Igor Sechin. However, the command of the operation, which tended more and more to go into the hands of BP, gave rise to a new escalation of tensions between BP and the local market. That same year, the BP-Rosneft agreement would end up suffering a judicial blockade in an episode that even involved the invasion of BP's office in Moscow by the Russian police. With BP put to the side, US-based ExxonMobil ended up taking its place to exploit Rosneft's fields in Siberia.

With pressure from the Russian government, Putin managed to get BP to transfer 50% of TNK-BP's assets in exchange for USD 12 billion and 18.5% of Rosneft's shares according to Reuters data (Bousso & Zhdannikov, 2022). Although the company once again profited from the operation, the agreement did not provide an "exit" for BP from Russia and thus represented the end of the most profitable period for the company in the country (Exhibit 3). In addition to this amount of money received, BP has accumulated since its first agreement with TNK in 2003 around USD 19 billion in dividends in addition to another USD 5 billion from Rosneft's shareholding between 2013 and 2022. Despite all the tensions and disruptions, the capital injection made by BP in Russia was still one of the best investments the company had ever made in its history. At the same time, however, the risks of dealing with Russian institutions were becoming increasingly evident to the company's executives.

The minority position secured by BP in Rosneft was also very dependent on the political moment between the Russian government and the West. In view of this, the BP-Rosneft relationship was very shaken especially after 2014 when Russia annexed the Crimea region, also belonging to Ukraine. With the first sanctions imposed on Russia by the United States and the European Union, the plan of BP and the other western oil companies for the country ended up being put on stand-by. Although the company did not withdraw its local investments at that moment, the feeling among its top executives was going through a gradual retreat.

At the direction of BP since 2019, Bernard Looney's strategy for the company was to reduce its oil production by 40% by 2030 in order to focus on other renewable energy sources and with that be less vulnerable to the so-called "Russian risk". The company's complete timeline in the country can be seen in Annex 4 below.

THE SEARCH FOR A NEW STRATEGY

Despite Looney stating that in the medium and long term the abandonment of BP's position in Rosneft would not affect the financial goals of the company, it was already undergoing a process of diversification and transition from its main energy matrix of oil and gas to low carbon fuels and other renewable energies. However, the now lesser availability of revenue, which Looney admitted he did not know how it would be supplied, should limit the group's investments in the cleaner energy segment, delaying the transition. This deterioration in the group's financial performance, which is no longer a recent phenomenon, is even more evident when observing that in 2022 BP occupied only the 35th position in the ranking of the most valuable companies in the world, a drop of 17 positions compared to 2021 and far from the fourth place it in 2011 when its relationship with Rosneft began (Annex 5).

In view of recent events, Looney questions himself about the positive balance of the last 30 years of BP's relationship with the Russian market. Despite recognizing that since the 1990s the Russian project had yielded high profits for the company and that, in a way, it was one of the main decisions responsible for making BP what it is today commercially and politically, the constant wear and tear made him assess whether the company should have left the country in 2019 when it took over the management of the group. He reflects that if the political risk had been taken into account, certainly this exit could have been more strategic, gradual, and the USD 25 billion hit could have been avoided. While thinking of ways to dilute in the company's structures the cost associated with withdrawing from Russia, for its operations in the other 78 countries around the world (Annex 6), Looney needs to redefine the criteria for evaluating the political risk of BP operations on a global level, as well as reflect on possible mitigation strategies so that episodes like those observed in Russia in February 2022 do not happen again, opening the company to potential new risks.

The big question is that many of these countries with which BP has operations can be classified as emerging markets just like Russia. Such markets, despite having good business opportunities and a low level of competition, have considerable political and institutional challenges. These difficulties are often expressed through large bureaucracies, inefficiency of the public system, and low legitimacy of local laws and institutions.

The great growth potential characteristic of these markets has been configured over the last few decades as one of the main reasons that led to the entry of multinationals from developed countries. Such companies, just as BP had done in Russia in 1990, ended up betting on the economic potential presented by these peripheral markets as an alternative for diversifying their home markets, which, being mature, tend to be highly competitive and require large investments in return of minimal market share gains.

While he called his board of directors, Looney knew that a great work would need to be done especially with regard to the collection of local data and the perception of the company's managers and business partners in different countries. In addition, a new methodology for evaluating and classifying political risks capable of taking into account information from the macro and micro markets and, thus, meeting the needs of the global reassessment project of BP's portfolio of operations would still need to be internalized. Would only the country-risk indicators provided by rating agencies be enough to answer this equation? (Annex 7).

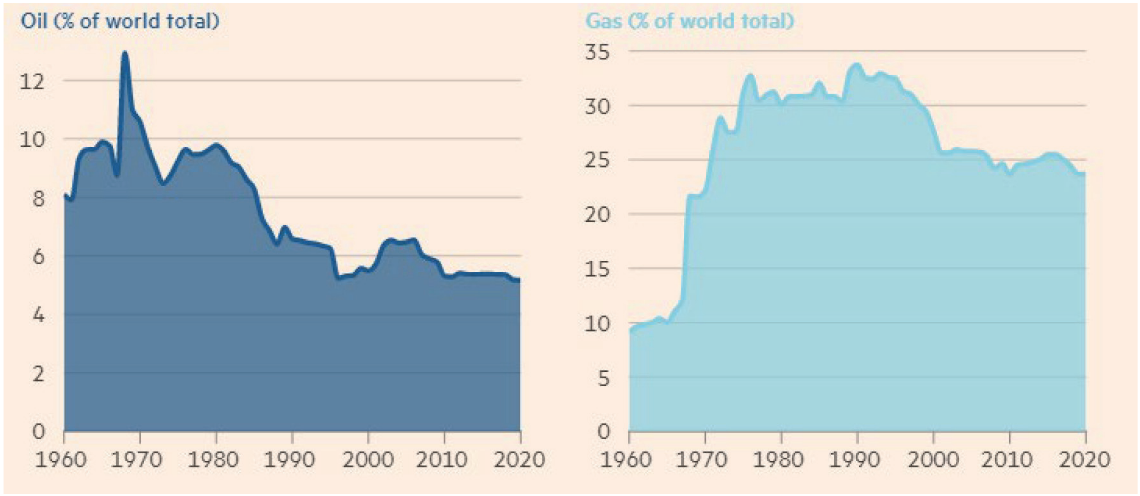
With this tool in hand, however, Looney's idea would be to assess one by one among its bases of operation the places where BP's attention would be needed. In addition, having this analysis would be important for Looney to develop mitigation strategies for the high political risks identified in some locations. For some extreme cases, the CEO also knew that a strategic withdrawal could not be ruled out so that the company could focus its forces on other markets in a move similar to what it had already done in 1980. Amid so many challenges and a limited amount of resources to be invested in the project, the big question on Looney's mind was where to start.

ANNEXES

Annex 1
Ukraine and the contested regions of Donbass and Crimea

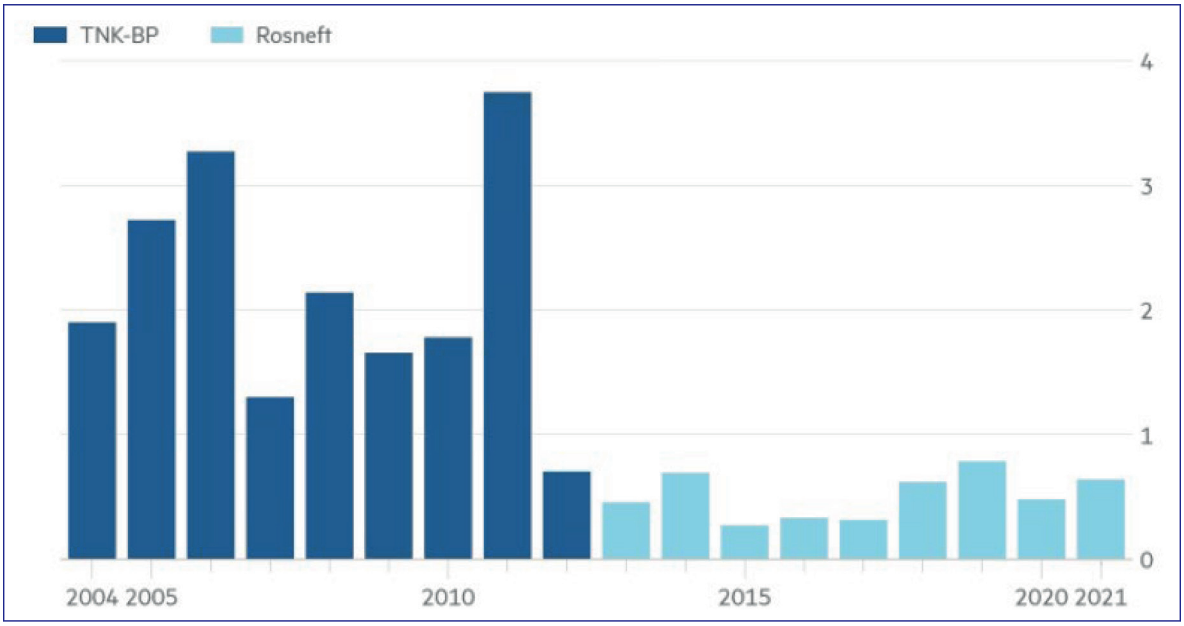
Source: Nikolskaya (2022).

Annex 2
Russian oil and natural gas reserves as a percentage of world total



Source: OPEC as cited in Wilson (2022).

Annex 3
Dividends collected by BP from its Russian operations in USD (billions)



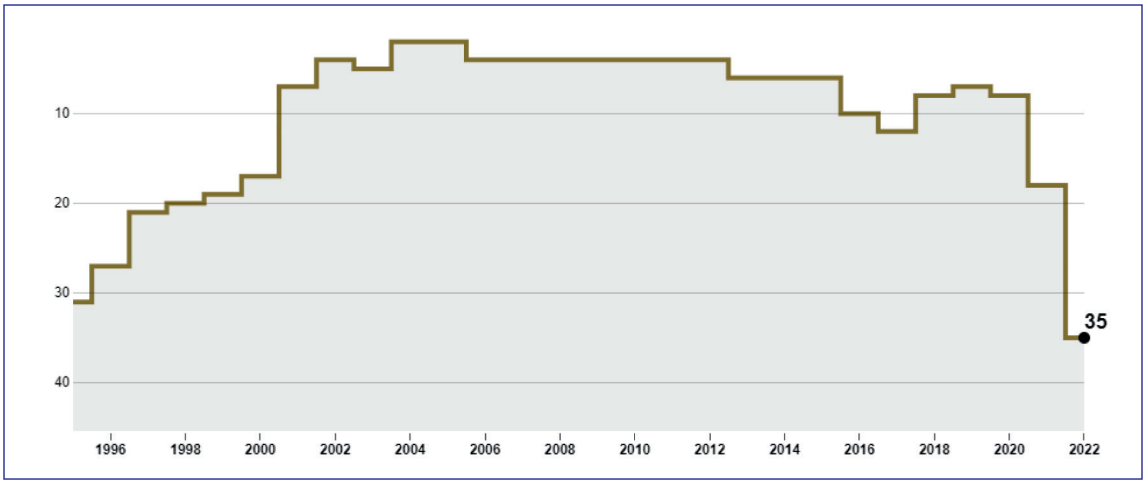
Source: BP annual reports as cited in Wilson (2022).

Annex 4
BP Timeline in Russia

1990- BP opens an office in Moscow and begins prospecting business opportunities.
1996- BP makes its first major investment by opening a chain of gas stations in Russia.
1997- BP acquires a shareholding in Russian oil producer Sidanco, a partnership that lasts just 2 years.
2003- BP invests USD$ 8 billion in a joint venture with TNK, becoming the biggest foreign investment ever made in Russia.
2011- BP signs deal with Rosneft to explore opportunities in Siberia, ends up falling apart after pressure from TNK oligarchs on the Russian government.
2013- BP sells its shareholdings in the joint venture with TNK in exchange for USD$ 12 billion in cash and an equity participation in Rosneft.
2014- Rosneft is sanctioned by the US and EU after Russia annexes Crimea, however BP maintains its investments in the country.
2022- BP announces plans to permanently exit the partnership with Rosneft and abandon its operations in Russia.

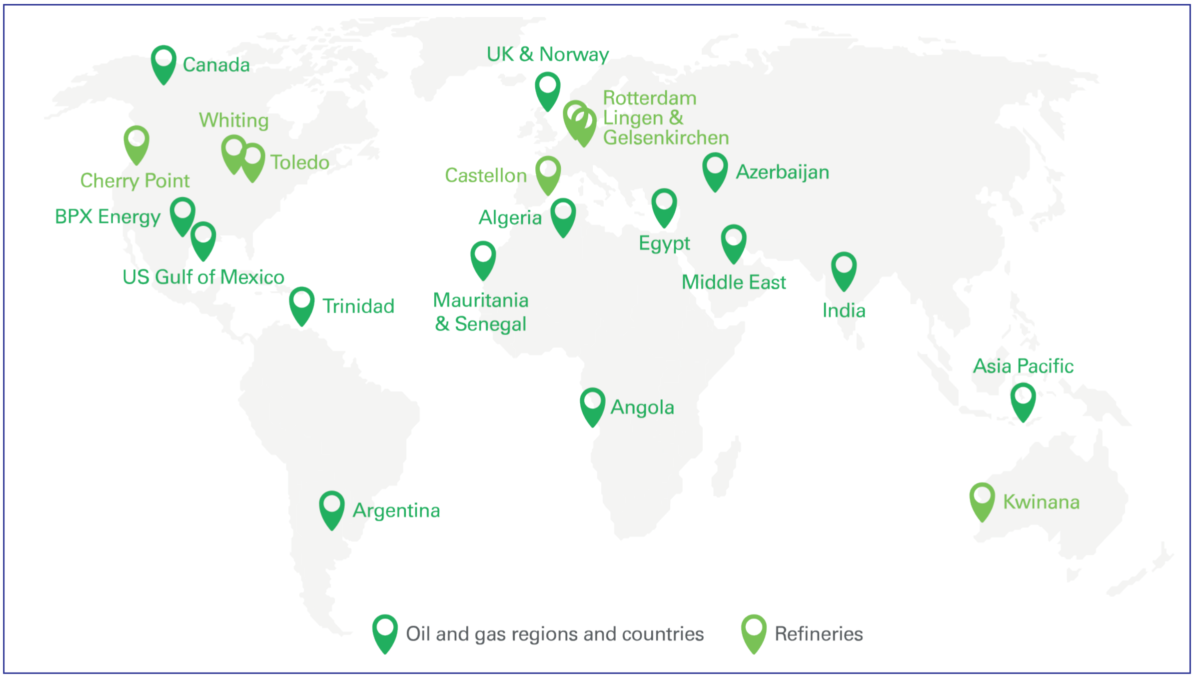
Source: Wilson (2022).

Annex 5
BP brand value ranking history



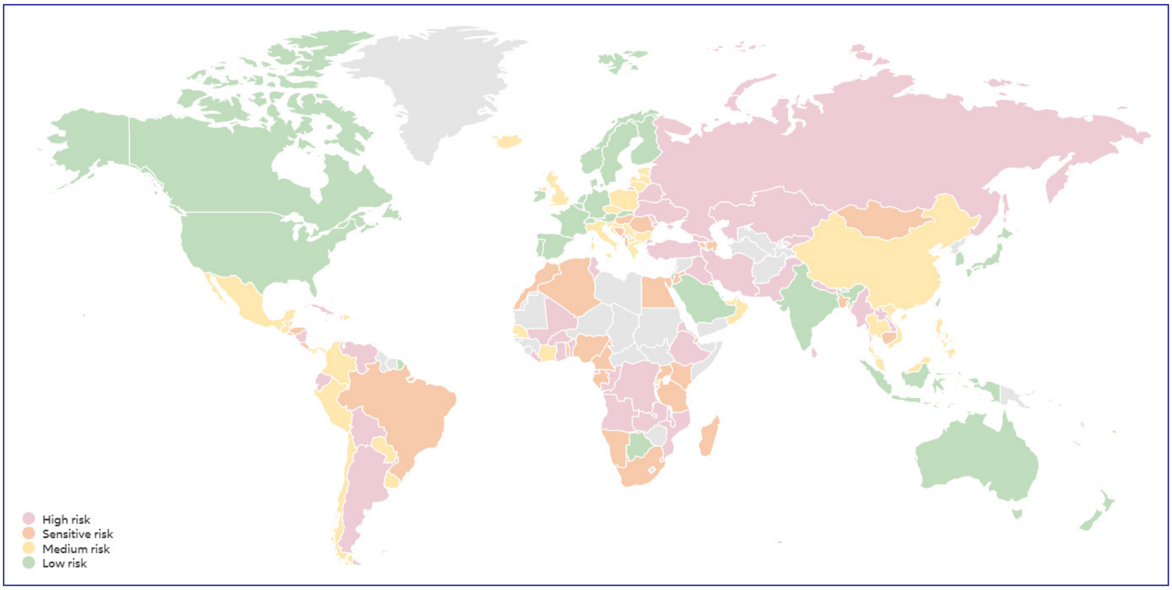
Source: Fortune (2022).

Annex 6
Main operations of BP in the world



Source: British Petroleum (2022).

Annex 7
Country risk map



Source: Alianz Trade (2022).

TEACHING NOTES

The political risk of the Ukrainian war for the global fuel market: the case of British Petroleum in Russia

Abstract

In February 2022, Russia invaded the eastern territories of Ukraine. Three days after the invasion, pressured by public opinion and the British government, British Petroleum (BP) announced the abandonment of its almost 20% equity shareholding in Russian state-owned Rosneft at an estimated cost of USD 25 billion for the company. The case puts the reader in the position of CEO Bernard Looney to reflect on the redesign of the company's strategy with regard to assessing the impact of political risk on its other businesses in the world. The case was designed for undergraduate and graduate students in Business Administration, International Relations, and related areas who want to address topics such as oil geopolitics, business strategy, political risk, and international business.

Keywords: War in Ukraine. Oil and Gas. Political risk. International business.

O risco político da guerra da Ucrânia para o mercado global de combustíveis: o caso da British Petroleum na Rússia

Resumo

Em fevereiro de 2022, a Rússia invadiu os territórios do leste da Ucrânia. Pressionada pela opinião pública e pelo governo britânico, a British Petroleum (BP) anunciou, três dias após a invasão, o abandono da sua participação acionária de quase 20% na estatal russa Rosneft, com custo avaliado em USD 25 bilhões para a empresa. O caso coloca o leitor na posição do CEO da multinacional, Bernard Looney, para refletir sobre o redesenho da estratégia da empresa no que diz respeito à avaliação do impacto do risco político em seus demais negócios do mundo. O caso foi pensado para alunos de graduação e pós-graduação em administração, relações internacionais e áreas afins que queiram tratar de temas como geopolítica do petróleo, estratégia empresarial, risco político e negócios internacionais.

Palavras-chave: Guerra da Ucrânia. Petróleo e gás. Risco político. Negócios internacionais.

El riesgo político de la guerra de Ucrania para el mercado global de combustibles: el caso de British Petroleum en Rusia

Resumen

En febrero de 2022, Rusia invadió los territorios orientales de Ucrania. Presionada por la opinión pública y el gobierno británico, British Petroleum (BP) anunció, tres días después de la invasión, el abandono de su participación accionaria de casi el 20% en la estatal rusa Rosneft, con un costo estimado de USD 25 mil millones para la compañía. El caso pone al lector en la posición del CEO de la multinacional, Bernard Looney, para reflexionar sobre el rediseño de la estrategia de la compañía con respecto a evaluar el impacto del riesgo político en sus otros negocios en el mundo. El caso fue concebido para estudiantes de grado y posgrado de Administración de Empresas, Relaciones Internacionales y áreas afines que quieran abordar temas como geopolítica petrolera, estrategia empresarial, riesgo político y negocios internacionales.

Palabras clave: Guerra en Ucrania. Petróleo y gas. Riesgo político. Negocios internacionales.

Teaching objectives

The case aims to put students in the place of the protagonist Bernard Looney, CEO of BP, so that they can reassess the impact of political risks on the organization's global business. Through the discussion of the case, the aim is to invite participants to reflect on strategic possibilities capable of leading to a repositioning of the investment portfolio in the various countries in which multinational companies do business in order to avoid losses similar to those observed by BP in the Russian market. At the end of the discussion, students are expected to be able to: 1) understand the main components of political risk; 2) map the locations with the highest incidence of these risks for multinational corporations; and 3) discuss political and institutional risk mitigation strategies.

Target audience

The case "The war in Ukraine and the political risk in the global fuel market: the case of British Petroleum in Russia" was designed for undergraduate, graduate, and other executive education courses in the areas of administration and international relations that want to deal with topics such as oil geopolitics, business strategy, political risk, and international business.

Sources of information

Data collection took place between February and September 2022 through secondary data sources such as scientific articles, consultancy reports, and journalistic material, including gathering reports from international correspondents from the main news agencies in the world such as CNN Brasil (Nikolskaya, 2022), Reuters (Bousso & Zhdannikov, 2022), and *Financial Times* (Wilson, 2022). Managerial experiences and professional perspectives of the authors were also added in order to contribute to the narrative of the case.

SUGGESTED TEACHING PLAN

Small group discussion questions

1. What are the most evident characteristics of the oil market in Russia? What are the main political risks that you can identify?
2. Do you believe that the USD 25 billion financial hit presented in the case could have been avoided or mitigated by BP? In what way?
3. If you were on the board of directors, what recommendations would you give Bernard Looney for the future of BP's operations after leaving Russia?
4. What other markets in which the company operates should be immediate targets for strategic political risk mitigation actions? Should the company design de-internationalization strategies?
5. How can the company prepare for the future, either by expanding into other markets or by consolidating its international presence?

Class plan

This teaching plan assumes that there has been prior preparation by the students and a two-hour class, as proposed below:

- Beginning of class and dividing the room into small groups of four to five students (5 minutes).
- Discussion in small groups (30 minutes).
- Case presentation (10 minutes).
- Plenary discussion (70 minutes).
- Closing (5 minutes).

DISCUSSION PLAN AND ANALYSIS

Introduction

To warm up the discussion of the case, it is suggested that during the initial moments the instructor dialogue with the participants about the locations in which BP maintains operations and which deserve greater attention. At this point, the following opening question could be posed to the group:

From a political risk perspective, what are the countries in which BP operates that need to be watched in order to avoid new losses like what happened to Rosneft in Russia?

At this point it is suggested that the instructor share with the group the Country Report Table 2022[5] spreadsheet developed by the authors based on information from British Petroleum (2022) and Allianz Trade (2022). In the first tab of the worksheet, it is possible to observe all the BP group companies subdivided by country and type of operation, while on the second tab there are country risk indicators that take into account five variables, including political risk. The complete methodology that composed the indices can be seen on the third tab of the same spreadsheet.

With this, it is suggested that the instructor, together with the students, use the filter selection and sorting tools of the file to identify the places where BP operates that are at greater risk. To verify the regions with the greatest potential impact of these risks on investment, the instructor will be able to select on tab 1 only the countries in which the company has manufacturing and production units, since these modalities usually require larger and more complex international investments (Buckley & Casson, 1981). At the same time it is possible to filter the countries with the highest risk on tab 2, which is expressed by combining the Medium-Term Rating from "AA" to "D", where "D" is the riskiest with the Short-Term Rating from "1" to "4", with 4 being the highest risk. Therefore, it is suggested that at this moment a cross-checking work be carried out in order to identify the countries in which BP maintains manufacturing and production operations classified as "D-4" (high risk in the short and medium term). In 2022, these countries were Iran, Iraq, Libya, and Pakistan. If this is the objective, other filter and selection settings are encouraged in order to make the sample more comprehensive to the students.

After this initial survey, the following transition question can be asked to the group by the instructor:

Analysis

(TQ-1) What other factors do you believe need to be taken into account by multinational corporations when mapping a country's political risk?

To map and assess a country's political risk can be a complex and challenging activity even for the largest organizations, mainly because of the diversity of forms that this concept can take (Clark, 2018). According to Bremmer and Keat (2010), political risk can be understood as any event capable of directly or indirectly affecting the economic value of the assets of a person, organization, or even governments in certain locations. Still according to the authors, a declaration of war, an act of terrorism, a nationalization law, and changes in the internal normative rules responsible for regulating investments or taxes would be classic examples of political risk. Such events would still bring different repercussions depending on who would absorb their worst impacts. As a result, companies could lose personnel, investments, or infrastructure overnight as a result of political events (Busse & Hefeker, 2007).

To better map the political risks and contribute to the discussion of the case, Box 1 presents the main types of events that could generate political risk and their examples.

[5] The Country Report Table 2022 is available at https://www.researchgate.net/publication/365926342 _Country_Report_Table_-_BP_2022_-_ing

Box 1
Types of political risk

Main types of risk events	Examples
Geopolitical	International wars
	Big power shifts
	Economic sanctions and embargoes
Global energy	Politically decided supply and demand issues
Terrorism	Destruction of property
	Kidnappings
Internal political conflicts	Revolutions
	Civil wars
	Coup d'état
	Nationalism
	Social unrest (strikes, demonstrations)
Expropriations	Confiscation of private property
	"Silent" Expropriations
Breaches of contract	Government frustration or breach of contract
	Improper calling of letters of credit
Capital market, currency, and profit repatriation risks	Currency controls
	Credit default due to political motivations and market changes
	Profit repatriation
Discrimination and favoritism	Discriminatory taxation
	Corruption
Unknown or uncertain	Effects of global warming
	Effects of demographic changes
	Political events that cannot be predicted

Source: Bremmer and Keat (2010).

At this point, it is recommended for the instructor to write on the class board the main types of political risks raised by the class. After this initial mapping, Box 1 could be presented in order to generate a comparison with the examples brought by the group. From there, a brief analysis of the examples of political risk identified in the case can still be carried out, as suggested below:

Geopolitical – the Russian invasion of Ukraine represents, in fact, the biggest armed conflict that the European continent has experienced since the end of World War II, thus placing great pressure on the geopolitical theater of operations with regional and global repercussions. The large-scale use of embargoes and economic sanctions, especially by Western countries, directly impacted the business of foreign companies that operated or had trade agreements with Russia.

Global Energy – Much of the interest of other nations around the world in the Russia-Ukraine conflict concerns the global energy market. As the country holds large oil and natural gas reserves, the embargo on Russia causes significant pressure on the global supply chain, which leads to energy supply crises and the increasing of commodity prices, contributing to world inflation.

Terrorism – although the conflict is not a classic example of terrorism to which the world has become accustomed since September 11, 2001, since the beginning the Ukrainian government has been pressing other world leaders to recognize Russia as a country that practices state terrorism (Blakeley, 2009).

Internal political conflicts – the invasion ended up triggering great social unrest in Russia itself, especially regarding groups opposing the Putin government and by international public opinion and the position of other countries in the face of the conflict.

Expropriations – the military operation ended up generating forced expropriations of companies operating in the occupied territory with an emphasis on some Ukrainian nuclear power plants such as Zaporizhzhia, which had in some moments to be shut down or in others started transmitting energy to Russian territory.

Breach of contract – even before the conflict, BP itself had had troubled contractual relations with its Russian partners. After the invasion, however, what was seen was a mass evasion of foreign companies with business in Russia, leaving behind a large contractual & legal liability.

Capital market risk – the sanctions adopted by Western countries against Russian companies, banks, and oligarchs with capital abroad generated significant impacts on the Russian economy, causing currency devaluation and inflation in the first months of the conflict.

Discrimination and favoritism – the system of oligarchies present in the privatization process of national companies experienced by the country with the end of the USSR in 1991 evidences a system of favoritism towards influential people close to the government. In addition, BP itself, throughout its years of operation in the country, suffered from the fact of being a foreign company with majority shareholding control of Russian assets as in the case of its partnership with TNK.

Unknown or uncertain – for the fuel market specifically, recent changes in the global concept of sustainability (Ray, 2019), as well as the scarcity of fossil fuels and the search for renewable and cleaner energy sources, should significantly affect the geopolitical chessboard of the sector in the coming years.

The objective of this qualitative analysis in mapping the political risk events (Bremmer & Keat, 2010) in view of the information available in the case is relevant in order to enable similar work to be carried out in locations also mapped as high risk. If the group or instructor is aware of environmental variables that characterize political risk in other countries, examples other than Russia could be developed at this stage. With this, to continue the analysis of the case, the following question could be directed to the class:

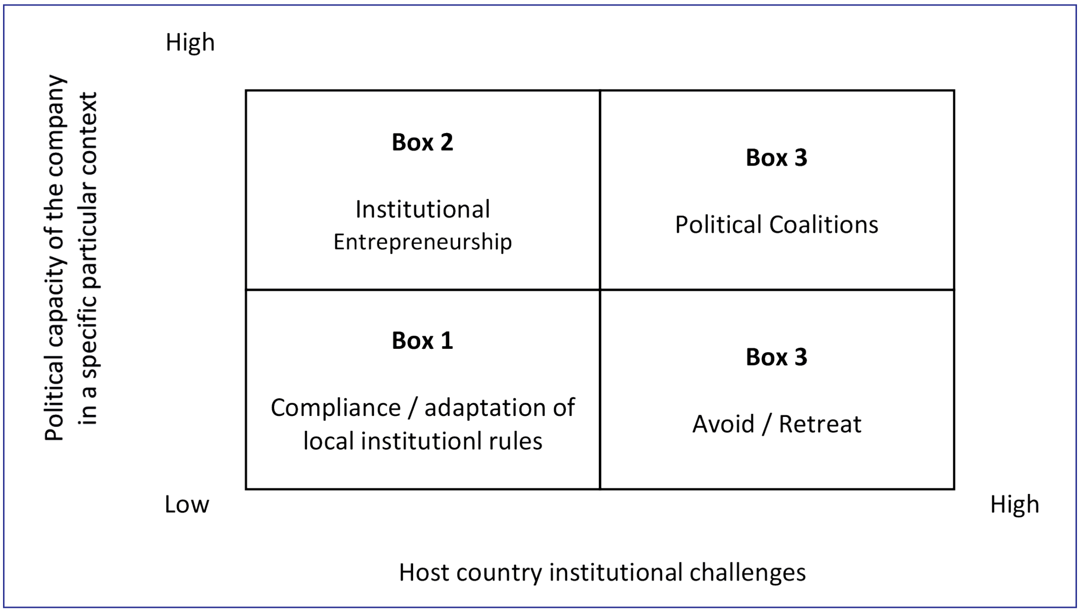
(DQ 1): Given the identification and understanding of the main events capable of influencing political risk, what mitigation strategies could be adopted by multinational corporations in regions of high risk?

Due to the rapid changes in the institutional political environment in countries and the clash between the economies of great powers due to the advance of international trade and the expansion of market borders, risk management in business becomes a priority for managers of multinational companies (Haendel & Jordan, 2019), which become even more exposed when operating in foreign markets. Thus, in a context marked by high political uncertainty and international conflicts, it becomes increasingly important for companies and governments to develop new strategies capable of reducing these destabilizing risks (Giambona, Graham, & Harvey, 2017).

Previously little discussed in the international business literature, the so-called political and institutional risk has gained increasing relevance among authors in the area who have been concerned with understanding how local institutions affect operations, performance, legitimacy, and even the survival of multinational subsidiaries (Kostova, Roth, & Dacin, 2008). According to the authors, this concern is mainly due to the advance of multinational corporations in emerging markets, which, despite usually presenting good business opportunities, generally manifest institutional weaknesses of equal size. But for the effective identification of these institutional fragilities, it is important that the actors involved in the process be able to identify the characteristics of local institutions that are critical to their businesses since by definition they can assume a broad meaning, often being understood as the formal or informal rules and norms of a certain game that govern the social, political, and economic relations of a determined locality (North, 1990).

The inefficiency of many institutions in regulating certain sectors of the industry, generating transparency, and enforcing legislation means that multinational organizations have to develop their own risk mitigation strategies so that it is possible to successfully elaborate complex global projects in different markets (Kardes, Ozturk, Cavusgil, & Cavusgil, 2013), including emerging markets. In this way, Zhu and Sardana (2020) present four possible strategies for mitigating political and institutional risks that vary according to the company's ability to measure and manage complex risk situations. The political capacity is expressed by the vertical axis, while depending on greater or lower institutional risk found in the host country, the institutional complexity could be expressed by the horizontal axis, as seen in Figure 1.

Figure 1
Risk mitigation strategies versus environmental context



Source: Adapted by the authors from Zhu and Sardana (2020).

In situations where there is low corporate political capacity combined with lower political-institutional challenges, the company could focus on compliance tactics (Box 1) by adapting to the local norms of a specific industry sector with the objective of creating legitimacy. However, Zhu and Sardana (2020) argue that in the same environment of less institutional complexity, if the organization's political capacity is greater because of the accumulated experience in other complex contexts, the company may assume an entrepreneurial stance (Box 2) in order to try to maximize their profits by circumventing bureaucracy or filling institutional voids. Such an approach, similar to the institutional entrepreneurship of Kostova et al. (2008), it is about assuming an active posture on the part of the organization with the market.

While in markets that present high political-institutional complexities, even if the company has high political capacity, adopting a coalition strategy is suggested (Box 3). This strategy, in addition to requiring an active posture on the part of the organization, has its success associated not with individual performance, but with the company's ability to establish successful coalitions with external business partners such as with local political leaders, suppliers, distributors, consumers, and even competitors. Finally, in regions of high institutional complexity where the organization is not willing to improve its political capacity or develop coalitions, Zhu and Sardana (2020) recommend that the company avoid investing in the region in order to prevent losses.

In view of these strategies vis-à-vis the events of the case, in fact we observe that sometimes BP, after some initial years of evaluation, started to assume an active posture with the Russian market, even using coalition tactics by getting closer over the years to oligarchs, state-owned companies, and local government bodies. Still, a limited assessment of the escalating political and institutional complexities of the Russian market, especially with the invasion of Crimea in 2014, which resulted in increased tensions with the West, caused the company to disregard a possible strategy to avoid losses (Box 4), thus missing the timing of retreating from the market without major damage to its assets residing in the country.

Closing

In order to propose a closure for the discussion of the case, we suggest that the instructor present the following final question to the group:

In places where high political risks to the permanence of BP were evident and the other mitigation strategies had not shown effectiveness, in your view should the company consider deinternationalization (Benito & Welch, 1997) as a possibility?

After a quick vote and accounting of the responses, the instructor may also ask that a member of each group (against × in favor) briefly justify their answers.

Disclaimer

Although the names of the companies and actors presented in the case are real, the entire narrative of the case was built based on secondary sources of data available to the general public and do not necessarily represent the opinion or point of view of the cited actors. In addition, the authors have no conflict of interest to declare, nor have they received any type of aid or financial support to conduct this research.

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