Journal of Business Ethics (2019) 158:535–546
https://doi.org/10.1007/s10551-017-3751-8

ORIGINAL PAPER

Investment Ethics and the Global Economy of Sports: The Norwegian Oil Fund, Formula 1 and the 2014 Russian Grand Prix

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Received: 13 March 2017 / Accepted: 24 November 2017 / Published online: 2 December 2017

Abstract
As a sovereign wealth fund, the $1 trillion Norwegian Government Pension Fund-Global ('the Oil Fund'), which is managed by Norges Bank Investment Management on behalf of the welfare of Norway's citizens, is supposed to be a flagship for socially responsible investments through its Council of Ethics. However, its investment in Delta Topco, the holding company of Formula 1 world championship that, through Formula One Group, brokered a deal with Russia to host a Formula 1 Grand Prix in 2014, raises the question of whether the Oil Fund should enhance its due diligence processes. Although no evidence of corruption related to the race is introduced, the complex relation between financial logic and the world of sports still raises questions about the ethical solidity of the Oil Fund's investment. Drawing upon reports of the relationship between political economy and sporting events, this paper therefore analyses, in light of the Oil Fund's ethical guidelines, the complexities of its investment in Delta Topco. As a result, it is argued that a new set of examination methods by the Council of Ethics may be warranted.

Keywords Norwegian Government Pension Fund · Sport · Politics · Socially responsible investments · Formula 1

Abbreviations

FIA	Fédération Internationale de l'Automobile
FOG	Formula One Group
ISA	International Sport Associations
NBIM	Norges Bank Investment Management
SRI	Socially responsible investments
SWF	Sovereign wealth fund

Introduction

The $1 trillion Norwegian Government Pension Fund-Global ('the Oil Fund'), which is managed by Norges Bank Investment Management (NBIM) to benefit the welfare of future generations, says in its ethical guidelines that it will not invest in companies that are associated with human rights violations, production of arms or tobacco, or are involved in corruption. Based on these guidelines, investments in the global sporting industry, which on paper adheres to the universal values of sport, therefore seem like a sound strategy for the Oil Fund. Collignon and Sultan (2014) calculate that the entire market for sports events in 2014 (revenues from tickets, media rights and sponsorships) was worth close to $80 billion, with annual growth of 7%. When you add in sporting goods, equipment and health and fitness spending, the sports industry generates about $700 billion yearly, or 1% of global GDP. Formula 1, along with football and US Sports, is one of the top three areas of sport market revenue 2005–2017 (Collignon and Sultan 2014).

However, as noted by Andreff (2000, p. 5), 'when financial logic is imposed on sport, the ethical risks deriving from the sport-money relationship grow'. With its investment in Delta Topco, the holding company of Formula 1 world championship that, through Formula One Group (FOG), brokered a deal with Russia to host a Formula 1 Grand Prix in 2014, the question arises of whether the Oil Fund does enough to endorse its mandate of socially responsible investments (SRI). The timeline in Fig. 1 illustrates how this transaction, with its attendant risk of involving the Fund in corrupt practices, developed.

I will expand below the narrative outlined in Fig. 1, but the key facts are that in 2012 the then $640 billion Oil Fund formed a partnership with investors BlackRock and Waddell & Reed. They invested $1.6 billion in Delta Topco (of which

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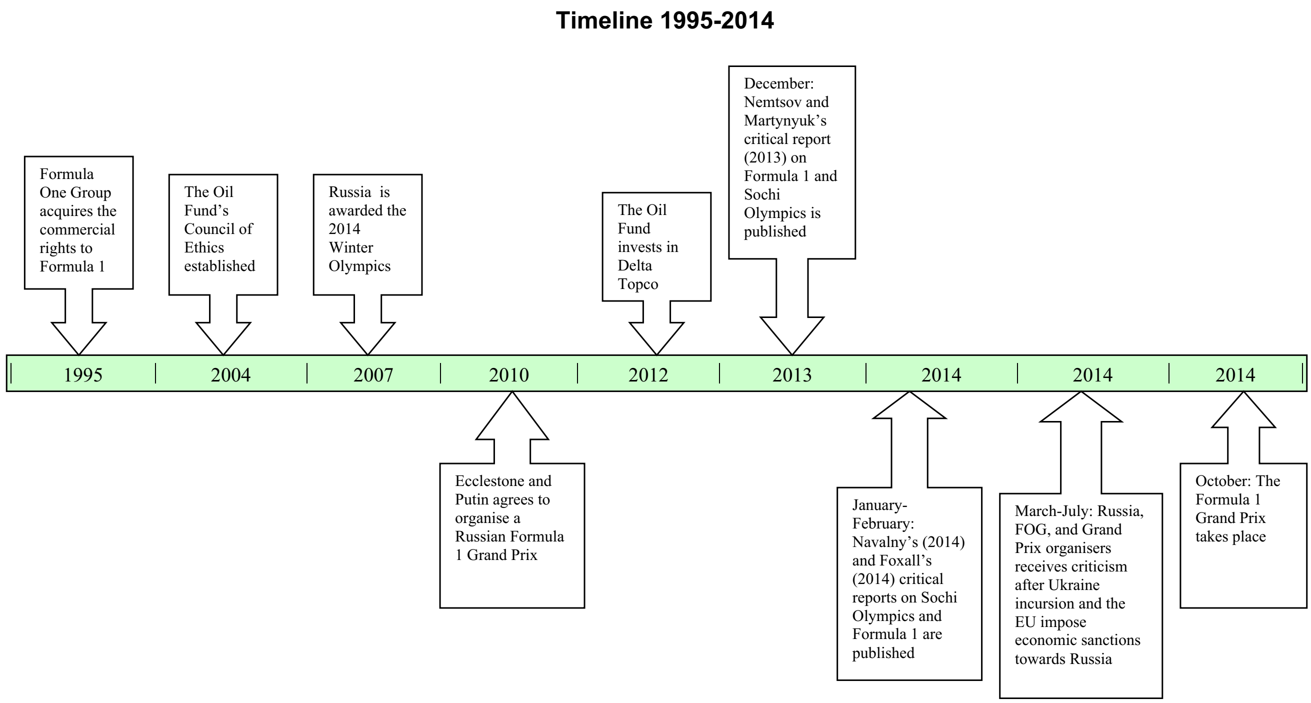

Fig. 1 .

the Norwegian share was $300 million). Two years later, the Formula One Group (FOG, in which Delta Topco was, until 2017, the majority shareholder with a 65% stake) and Russia received criticism for a lack of transparency regarding the political economy of the Sochi Winter Olympics of which the Russian Grand Prix also became part. The Oil Fund's investment therefore provokes a discussion of ethics as pension funds to an increasing degree exercise 'their legitimate rights as owners to raise the corporate governance standards of the firms they invest in' (Hebb 2006, p. 385).[1]

The Norwegian Oil Fund

Established in 1990 as an investment branch of the Global Pension Fund (into which the surplus wealth produced by Norwegian petroleum income is deposited), the Oil Fund has since become a way to manage the country's wealth for future generations. Its key strategy is to invest abroad 'to avoid overheating the Norwegian economy and to shield it from the effects of oil price fluctuations'. According to NBIM (2016), the Oil Fund, which on 20 November 2017 had a market value of approximately $1 trillion,[2] mainly invests in international equity and fixed-income markets and real estate. When these investments are channelled into the global economy of sports, it is relevant to review the character and terms of the Fund. Like the Government of Singapore Investment Corporation, the China Investment Corporation (CIC) and the funds of the Persian Gulf States, it is a sovereign wealth fund (SWFs). These are defined as 'special-purpose vehicles that invest sovereign assets in private financial markets' (Clark et al. 2013, p. 14) and are increasingly seen as contributors to a formative shift in the global political economy (Clark and Ashby 2010; Castree and Christophers 2015).

Naturally, SWFs vary in terms of ethical responsibilities, though most of them seem to include 'moralist subcategories' (Clark et al. 2013, p. 64) which implies that the investments have a social profile (Castree and Christophers 2015, p. 384) and may thus contribute to so-called capital switch. According to Castree and Christophers (2015, p. 380), who elaborate on economic geographer David Harvey's conceptualisation of this idea (1978), this is 'the process whereby

[1] This paper does not suggest that the Oil Fund has contributed to corruption in Russia, nor does it imply that any of the actors mentioned are corrupt. It merely draws upon both publically available official reports critical of the political economy related to the 2014 Sochi Olympics, of which the Russian Grand Prix also become part, to explore the ethical complexities of the Oil Fund's investment in Delta Topco and to illuminate the unclear third party responsibilities in the global economy of sports.

[2] An interactive infographic about the size of the Oil Fund can be accessed from: https://www.nbim.no.

investment is rerouted from one circuit of capital to another'. While Harvey focused on the switch from investment in the wage-labour-based production of goods and services to investment in the construction of built environments, such as factories, Castree and Christophers emphasise diversions of investment 'pivotal to global attempts to cope with future climate change' (2015, p. 380). In the case of the Oil Fund, once described as 'an expression of Norway's commitment to global justice' (Clark et al. 2013, p. 68), this motive became apparent when the Environmental Fund was established as part of the mother fund in 2001.

In the beginning, the supervisors of this Fund were to provide an evaluation of whether specific investments were in conflict with Norway's commitments under international law. Mirroring the Norwegian government's general CSR policies in the late 1990s, the 'green' policy was broad in scope ('societal' rather than 'social') but limited when it came to direct intervention (Ihlen and Weltzien Hoivik 2015). As economic globalisation became increasingly complex, it was decided to replace the Advisory Commission on International Law with the new Advisory Council on Ethics in 2004.[3] Advised by RepRisk (Netherlands), Sustainalytics (Switzerland) and Livingstone and Company (UK), who all three monitor the Oil Fund's investments in approximately 9000 companies in 75 countries for issues that may come in conflict with its ethical statutes, the Council of Ethics can identify companies which are going to be 'put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for' human rights violations, severe environmental damage or gross corruption.[4] Information about these activities is then handed to NBIM which decides whether to withdraw the investment.[5]

With the Oil Fund's investment in Delta Topco, in which *Fédération Internationale de l'Automobile* (FIA, Formula 1's governing body holds a 1% stake), and hence in the global economy of sports, a new challenge has occurred. Even prior to this investment, the increasingly complex relation between economic globalisation and corruption since the millennium shift (Das and DiRienzo 2009) had complicated the Council of Ethics' work. According to Føllesdal (2007, p. 430), who discusses this topic in the context of a current reconfiguration of states, non-governmental organisations and corporations, 'changes in the options and capacities of corporations and domestic governments demolish plausible claims to corporations' and their investors' license to pursue profits unbridled.' Following the change in 2004 in the Oil Fund's social policy apparatus, a description, though not a definition, of 'gross corruption' was included in the work of the Council of Ethics (2007). As an example of this, when the Oil Fund's investment in Siemens AG was investigated, 'gross corruption' is held to be present when a company through its representatives (a) gives or offers an advantage—or tries to do so—in order to 'inappropriately influence' a public servant, a person in the private sector who makes decisions, or to influence decisions that can add benefits to the company, (b) demands or receives bribes, and (c) exploits the acts as explained in points a and b in a systematic or extensive manner.[6]

In addition to these points, the Council of Ethics' review 2007–2015 of companies potentially eligible for exclusion[7] creates a fourth element for consideration: the future risk of maintaining the investment must be reviewed, and, if the risk exists and is deemed to be significant, it is permissible to withdraw the investment as part of a strategy for preventive action.[8] This fourth element is relevant to our discussion as the right to host Formula 1 Grand Prix races is usually awarded for 10 years. This brings us to the 2007 analysis by Andreas Føllesdal (professor and member of the Council on Ethics of the Norwegian Government Pension Fund). He concludes that 'while the mandate of the Council on Ethics mainly seeks to avoid complicity in wrongdoing, I suggest that the Norwegian government's efforts at SRI may also contribute to prevent wrongdoing by others' (2007, p. 422). Ten years after Føllesdal's suggestion, and due to the special nature of the global economy of sport in general and Formula 1 in particular, this paper speculates whether the Oil Fund's investment in Delta Topco now necessitates a broader investigation of third party interests and the history of the global sporting industry to prevent potential wrongdoing. With this in view, we now turn to the business of Formula 1 and, subsequently, the 2014 Russian Grand Prix.

[3] Ibid.

[4] Guidelines for observation and exclusion from the Government Pension Fund Global. Available from: http://etikkradet.no/en/guidelines/ (accessed 1 October 2016).

[5] Ibid.

[6] For the Council of Ethics' review of these issues, please consult the information available from: http://etikkradet.no/files/2016/01/Tilrådning-Petrobras-21.-desember-2015.pdf (accessed 1 October 2016). My translation.

[7] For the Council of Ethics' review of these issues, please consult the information available from: http://etikkradet.no/en/tilradninger-og-dokumenter/recommendations/gross-corruption/. See also https://www.regjeringen.no/globalassets/upload/fin/statens-pensjonsfond/siemens.pdf (accessed 1 October 2016). My translation.

[8] For the Council of Ethics' review of these issues, please consult the information available from: https://www.regjeringen.no/globalassets/upload/fin/statens-pensjonsfond/siemens.pdf (accessed 10 October 2016). My translation.

Global Sport Economy, Formula 1 and Soft Power

The Formula One Group (FOG), the commercial owners of Formula 1, is not alone in the world of sports when it comes to balancing the regulatory obligations towards the sports' governing body with the responsibilities towards its commercial stakeholders. Ever since the establishment of International Sport Associations (ISA) like the International Olympic Committee (IOC) in 1894, followed by the International Federation of Football Associations (FIFA) and the Fédération Internationale de l'Automobile (FIA) in 1904, these organisations have promoted Olympic ideals as the heart of their operations: sport is an apolitical and non-commercial zone that is characterised by mutual respect and fair play between competing participants. However, with the growth of both sports and their governing bodies throughout the twentieth century, this 'zone' has become entangled with business and politics on all levels.

This development has produced some positive ramifications on a broad scale, ranging from contributing to the abolishment of apartheid to 'Sport for development'-programmes such as Right to Play (Hartmann and Kwauck 2011; Hayhurst and Kidd 2012). On the negative side, partly due to the ISAs insistence on being regarded as a unique organisational form (basically member clubs) subject to Swiss association laws while they simultaneously have made themselves dependent on financial partnerships with global companies like Adidas and the political blessing of governments (often in non-democratic countries), this development has also led to an increasing number of grey zones with regard to 'bad governance' (O'Boyle and Broadbury 2013; Meier and García 2015; Allison and Tomlinson 2017). For these reasons, Amnesty International, Transparency International, Sport for Rights Coalition and others have begun to scrutinize the awarding of sporting events. Because successful bids are key to get the ISAs approval to host a major sporting event, Szymanski (2016) in Transparency International's report on corruption and sports emphasises a topic worthy of heightened reflection for all parties: 'it is not surprising that, as hosting has become more attractive, the role of inducements has grown' and that one problem 'is to establish the difference between legitimate and illegitimate inducements' (159).

To illustrate why FIA is a relevant case to explore in this context, this paper focuses on the Formula 1 world championship. It was established as a world championship by FIA in 1950, but only became a global entertainment product in the early 1980s. Phase one in the commercial development of Formula 1 began with the acquisition of the commercial rights to the championship by British entrepreneur and race team owner, Bernie Ecclestone in 1981, an acquisition formalised in the Concorde Agreement (which has appeared in multiple forms since, the latest being signed in 2013). In essence, this is a contract between the Formula 1 teams (represented by Formula One Constructors Association, headed by Ecclestone), the commercial rights holder and the business division of FIA (called 'Formula One Administration' (FOA)) about the division of labour, the regulatory responsibilities and the distribution of revenue. When the first Concorde Agreement ended in 1987, Ecclestone quit as Formula 1 team manager and focused on the promotion of Formula 1, taking on the post of vice-president of promotional affairs at FISA (the motorsport branch of FIA, which, in 1993, was incorporated into the mother organisation). Among Ecclestone's most successful tactics was the introduction of race fees and proper surroundings as requisites to host a Grand Prix. Race fees vary in size, from nothing to \$65 million, while the average is about \$40 million (Sylt 2016a). Organisers pay these fees to Ecclestone as part of a contract that lasts from 5 to 10 years.

After Ecclestone had made Formula 1 more commercially successful, the FIA decided in 1995 to grant the commercial rights of F1 to Ecclestone's company for a 15-year period. In exchange for this deal, which would earn him \$1.55 billion the first 10 years, he would provide FIA with an annual payment of about 15% (Lovell 2010, p. 254). In 2001, Ecclestone's Formula 1 agreement with FIA was reorganised as a lease for the next hundred years at a price of \$313 million (Mosley 2015, p. 222). The same year, Ecclestone relinquished his seat on the FIA Senate and his role as FIA Vice-President for Promotional Affairs as a result of anti-competition investigations by the European Commission (European Commission 2001, p. 4). However, Ecclestone's success with Formula 1 had increased its value to such a degree that private equity firm CVC Capital—almost at the same time as the Council on Ethics of the Oil Fund was established—acquired SLEC Holdings (and a number of other companies) in 2005–2006 to gain a 63.4% share in what was now called FOG. In 2012, CVC sold parts of its stake to a trio consisting of NBIM (representing the Oil Fund) together with BlackRock and Waddell & Reed. Four years later, FOG was controlled by its shareholders through the Delta Topco holding company, which through a number of holding companies controls the SLEC Holdings Company, FOG's immediate owner (Sylt 2014, 2016a, b, c). Then, in 2016/2017, Liberty Media acquired Delta Topco from CVC Capital Partners and now holds a 35.5% ownership stake (Liberty Media Corporation 2016, p. 21).

Even though studies question the alleged cost–benefit ratio of Formula 1 Grand Prix' (Heng 2014; Fairley et al. 2011; Henderson et al. 2010), and others claim that, in terms of its increasing national prestige, 'the examples where sport has functioned successfully in this manner are with states that have an image problem to start with: South Africa and political apartheid, Germany and its struggle to come to terms with its past' (Grix and Carmichael 2012, p. 82), there is a long line of countries who want to use sporting events as a catalyst for national (re)branding. Unlike other mega-events, which are held once annually or every other year, Formula 1 makes an appealing platform for emerging countries to raise inward investment and enhance cultural rejuvenation, as it attracts 425 million viewers for each of its 20 races a year (Jenkins et al. 2016, p. 11). For Ecclestone, in the mid-1990s, Asian countries represented a step into potentially huge consumer markets (where only Japan had hosted a Formula 1 Grand Prix before). This aligning of interests was enabled by the expansion of the market economy and the removal of trade barriers, as well as the globalisation of media platforms throughout the 1990s. These developments attracted investors who had traditionally taken no notice of sport (Amis and Cornwell 2005; Rossi et al. 2016), as well as providing new uses of sports events for political purposes.

Rowe (1999, 2015) argues that televised sporting events to an increasing degree manifest the ideological influence of the facilitator (the media), the event (the sport) and the political context in which the event is hosted (the government). An early bird in this respect among emerging states was Malaysia, hosting its first Grand Prix in 1999. According to Wain (2010), former president Mahathir Mohamad was eager to attract foreign investments and tourists by showing the best of the country through a Formula 1 event. He was particularly encouraged by the experience of Petronas, the national oil company, which had sponsored the Red Bull Sauber Formula 1 team since 1995. Apart from envisioning a trickle-down effect from the Formula 1 race to the city of Kuala Lumpur in particular, Mohamad felt it would be a showcase for the Proton, the new national car, and hence, he made sure the government financed the $64 million racetrack (Saward 1996). Similarly, in their study of China, South Africa and Brazil, Grix and Lee (2013) argue that hosting large sport events has become a popular way to gain 'soft power' by facilitating the shared cultural values of sport. The right to host a Formula 1 Grand Prix, and the globalised media apparatus that comes with it, can therefore be considered as a way for governments to redefine national identity and to distil a view of country X and Y as modern havens in the global competition for investments, tourists and attention (Krawczyk 2004; Cha 2009; Grix and Carmichael 2012).

The 2014 Russian Grand Prix

Despite having had talks with Bernie Ecclestone since the Soviet era, Russian motorsport organisers had failed to produce an adequate Grand Prix programme. A proposed deal in 2002 to stage a race in Moscow failed to materialise because of disagreement over the television rights (Spurgeon 2013). Ecclestone, however, maintained his relationship with senior government officials in Russia as he was assured that the government would back a Grand Prix financially. When Russia was awarded the 2014 Sochi Winter Olympics in 2007, the process speeded up. On 14 October 2010, 2 years before the Norwegian Oil Fund's investment in Delta Topco, Ecclestone, met Russian President Vladimir Putin. The very same day, and in Ecclestone's presence, FOG and Tsentr Omega signed a contract to host the Russian Grand Prix. Arkady Rotenberg, a childhood friend and judo sparring partner of Putin, owned the general contractor, Inzhtransstroi Corporation. However, the problem was that private investments were insufficient to build a new racetrack and meet all the other requirements FOG has for allowing a race to become part of the F1 calendar.

According to Russian anti-corruption campaigner, Alexei Navalny (who was banned from entering Sochi during his investigations),[9] this was solved by making the Grand Prix part of the government's extensive investment in the Sochi Olympic Games. At first, with regard to the race track, the Krasnodar Region failed to provide a justification for its estimate of how much such a track would cost, and the Ministries of Economic Development and of Finance did not authorise the expenditures for construction. Instead, by including the racing complex under the section 'Construction of Olympic Sites and Development of Sochi', the government's part of the funding for what ended up with a price tag of $367 million 'was allocated from Federal budget as grants for Krasnodar Region, and the regional administration used them to purchase shares of Tsentr Omega' (Navalny 2014, p. 38). A report written by Russian opposition leader Boris Nemtsov and his activist ally Leonid Martynyuk suggests that, while the original contract was worth $163.5 million (Nemtsov and Martynyuk 2013, p. 16), the budget for construction swelled, yet Tsentr Omega's early estimates of an open-ended sum were left untouched. One major reason was that, according to a report written by Andrew Foxall (2014) from the British think-tank The Henry Jackson Society, this in effect was a small piece of a large puzzle.

[9] 'Russia Opposition Leader Banned from Going to Sochi', *The Interpreter*, 17 February, 2014. Available from: http://www.interpretermag.com/russia-opposition-leader-alexei-navalny-banned-from-going-to-sochi/ (accessed 24 October 2016).

Already in 2006, the Federal Target Program for the Development of Sochi as a Mountain Climate Resort towards 2014 had been declared a national priority by the Russian government. It carried an investment volume of $12 billion if Sochi were awarded the Winter Olympic Games and of $4.5 billion if it were not (Foxall 2014, p. 1). In the beginning, private investments were heralded as crucial to implementing this plan. As time went by, however, critics argued that it was corporations who benefited mostly from this deal on behalf of the state. Apart from FOG, who reputedly earned $200 million from letting Russia host a Grand Prix 2014–2020,[10] much attention has been given to the Rotenberg brothers, Arkady and Boris, childhood friends of Putin. Apart from the racetrack, they built the gas pipeline, roads, airport, Adler Thermal Electrical Station (TES), the cargo and seaports and other infrastructure in Sochi. While the brothers harvested 15% of the entire Olympic budget (Nemtsov and Martynyuk 2013, p. 13), Arkady Rotenberg also sold his shares in Inzhtransstroi Corporation in 2013, leaving the contracted maintenance costs of the Formula 1 track to others for the next 7 years.

A large portion of these private investments, apart from that of the Rotenberg's, was, moreover, dependent on state guarantees. For instance, the original idea was that 70% of the private investments would be covered by loans from the Vnesheconombank (a state corporation). By the end of 2012, the government admitted that the Olympic infrastructure projects were running at loss and would not provide a profit in the foreseeable future. For that reason, Vnesheconombank increased the bank loans to 90%. The following year, Gazprom and other major investors, demanded 100% guarantees from the government on loans for Olympic construction. Soon after Putin and Ecclestone met in February 2013 to discuss the progress of things, the Ministry of Finance also extended the loan for $267.3 million to Krasnodar Region 'under the personal guarantee of Governor Tkachev' (Nemtsov and Martynyuk 2013, p. 16) who was involved in myriad businesses in Krasnodar which benefited greatly from the Olympics. Meanwhile, Olympstroy, the state corporation and the largest investor in the construction of the Olympic facilities, had its budget more than doubled by the government to $9.4 billion.

Eventually, the share of public spending on the Games amounted to 96.5%—the highest proportion of public money for any Olympic Games on record (Müller 2014, p. 628). As indicated above, and supported by Golubchikov (2016), this was not the result of mismanagement, but a calculated move to rejuvenate the Sochi region (nearly 80% of the costs were unrelated to sports) and symptomatic of wider tendencies for transnational sports to intersect with national economies and politics. According to Foxall (2014, p. 1), Russia saw the Sochi Games as a way to enhance the country's return to 'great power' status (*derzhava*). It seems reasonable to conclude that the hosting of the Sochi Olympics and the Formula 1 race was part of an agenda whose aim, besides reinforcing the domestic status of Putin (Grix and Kramareva 2015), was 'catapulting Sochi into a league of world-class resorts to rival the global winter sports elite of the likes of Zermatt, Vail and Whistler' (Müller 2014, p. 629; see also Burns 2014).

However, the award of contracts to business people with close personal relationships with high-ranked state officials, without sufficient transparency or managerial audits, led to conflicts. First, Olympstroy faced a series of criminal charges, primarily for embezzlement, corruption or exceeding official authority, against each of its four successive managers (Foxall 2014, p. 7). Next, in March 2014, Oleg Zabara quit his post as Grand Prix promoter in Formula Sochi (the company in charge of promoting the Grand Prix) to take on 'an even more important task than Formula 1' that was not related to motor racing.[11] In came Sergey Vorobyov. Apart from having worked in Formula Sochi since 2012, Vorobyov also had event experience as the deputy head of the promoter organisation of the Sochi Winter Olympics (Walker 2014). Then, in April 2014, the Krasnodar Territory government began investigating potential misconduct at Formula Sochi and subsequently filed a lawsuit against the company for approximately $50.000 which, according to the claim, was used 'improperly' by former CEOs, Alexander Bogdanov and Sergei Bondarenko (the latter was also part of the Sochi Olympics organising committee as 'Executive Vice-President, Sport and IF Services, Event Services, Venue Management, Village Management', see Sochi Annual Report 2011), and former office manager, Alexander Belousov.

According to the plaintiff, the defendants 'acted in violation of the legal interests of society … by doing which inflicted loss on society.'[12] Formula Sochi had been a subsidiary of Tsentr Omega, a company wholly owned by the Krasnodar Territory government through its property management department, which was subcontracted to promote the Russian Grand Prix in 2011. Its responsibilities ended

[10] 'Sochi to host Russian GP from 2014–2020', *reuters.com*, 14 October. Available from: http://uk.reuters.com/article/uk-motor-racing-russia-idUKTRE69D1X020101014 (accessed 18 October 2016).

[11] 'Sergey Vorobyov is now responsible for the Formula 1 race in Sochi', *Dragtimes*, 26 March, 2014. Available from: http://www.dragtimes.ru/en/blogs/view/350 (accessed 14 October 2016).

[12] '"FORMULA SOCHI plc" is in the center of corruption scandal and close to going bankrupt', *change.org*, 9 April, 2015. Available from: https://www.change.org/p/fia-cancel-formula-one-russian-grand-prix/u/10408366 (accessed 17 October 2016).

in 2013 when Tsentr Omega regained the promoter role, but it remained part of the company structure. At first, the court dismissed the suit towards the end of 2014. The Krasnodar Territory government appealed, and on 15 February 2015 the Arbitration Court of Appeal allowed the appeal. About 6 months later, a Krasnodar region court ruled that Formula Sochi was bankrupt and owed about $109,500 to its creditors, while its available assets were only worth $26,400.[13]

Although these were small sums in the big picture, this situation led to worries among Formula 1 stakeholders about the financial solidity of the Russian Grand Prix. Consequently, a statement was released by Formula Sochi representatives who claimed that it was in fact Tsentr Omega that promoted the Russian Grand Prix, and that Formula Sochi had been liquidated in August 2014 'in accordance with the instruction of the Head of Administration of Krasnodar Region'. Furthermore, the decision to do so 'was made for the purposes of the complex implementation of the Formula 1 project and minimisation of the total expenses for the Russian Grand Prix'.[14] When Deputy governor Igor Galas told the RBC business news agency in December 2015 that 'we will not bear the costs for the next Formula One round', race promoter Vorobyov replied that 'we have no problems whatsoever'.[15] In 2016, Russian oil giant Lukoil confirmed that it had invested $24 million in the venture. Russia's Deputy Prime Minister, Dmitry Kozak, confirmed the investment and added: 'We had negotiations with Mr. Ecclestone about prolonging the contract with the pool of Russian investors who will be fully financing the Russian Formula 1' (cited from Sylt 2016b).

Case Discussion

If we view the Oil Fund as a strategic contributor to capital switch away from business policies incompatible with international standards on bad practices, it is uniquely positioned to apply a social preference to its investment (Clark et al. 2013, pp. 8–9; see also Sievänen et al. 2013; Hoepner and Schopol 2016). Although no evidence of corruption was introduced above, the case of the 2014 Russian Formula 1 Grand Prix still evokes multiple questions over the investment rationale of the Oil Fund, third party interests, and how high the risk of future 'gross corruption' should be reckoned by the Council of Ethics before NBIM take action. In the case of the Delta Topco investment, reports critical of the political economy of Delta Topco, as well as information about other cases where Formula 1 and commercial decisions have been mixed in ways that were open to criticism and were publically available well before the Grand Prix took place in October 2014, so NBIM had enough time to investigate the investment. Prior to this, other cases questioned the commercial legitimacy of Formula 1, most notably the above-mentioned anti-competition verdict by the EU in 1999 (European Commission 2001), and Ecclestone's $100 million fine for bribing a German banker with $44 million to approve the $1.4 billion sale of the Formula 1 rights to CVC in 2006, the latter being settled in August 2014.[16]

Apart from these examples, in light of OECD and Transparency International standards, there is the documented existence of corruption in Russia. Research on the social changes under Putin claims that 'corruption in Russia has penetrated the political, economic, judicial and social systems so thoroughly that it has ceased to be a deviation from the norm and has become the norm itself' (Cheloukhine and Haberfeld 2011, p. 53). In 2012, when the Oil Fund made its investment, Russia ranked 133rd among 174 countries on Transparency International Corruption Perception Index, and, 4 years later, had still only managed to climb to 131st among 176 countries.[17] Furthermore, still in 2012, Freedom House estimated that corruption costs the country between $300 billion and $500 billion a year—about one-third of the economy.[18] Individual cases of negligence are also well known. Lukoil, the latest investor in Formula Sochi, was founded in 1991 by its chief executive, the former Soviet deputy oil minister Vagit Alekperov, who owns around 25% of the company and has an estimated fortune of $9.5 billion (Sylt 2016b). It has been described as the prime example of how 'corruption robs the [Russian] state of revenue' (Kumar

[13] 'Organizer of Russian Formula One Grand Prix at Sochi declared bankrupt', *Russian Legal Information Agency*, 1 June, 2015. Available from: http://rapsinews.com/judicial_news/20150601/273836329.html (accessed 17 October 2016).

[14] 'Russian Grand Prix Bosses Deny Claims Sochi Race Organisers have Gone Bankrupt', *Inside the Games*, 3 June, 2015. Available from: http://www.insidethegames.biz/index.php/articles/1027713/russian-grand-prix-bosses-deny-claims-sochi-race-organisers-have-gone-bankrupt (accessed 17 October 2016).

[15] 'Sochi GP promoter says the F1 race is on for "years to come"', *News18/Associated Press*, 5 December 2015. Available from: http://www.news18.com/news/formula-one/sochi-gp-promoter-says-the-f1-race-is-on-for-years-to-come-1172828.html (accessed 18 October 2016).

[16] 'Formula One Chief Bernie Ecclestone Settles Bribery Case for $100 Million', *New York Times*, 5 August, 2014. Available from: https://www.nytimes.com/2014/08/06/world/europe/formula-one-chief-settles-bribery-case-for-100-million.html?mcubz=3&mcubz=3 (accessed 20 August 2017).

[17] All rankings are available from: https://www.transparency.org/news/feature/corruption_perceptions_index_2016 (accessed 19 August 2017).

[18] 'Russia 2012: Increased Repression, Rampant Corruption, Assisting Rogue Regimes', *freedomhouse.org*, 21 March, 2012. Available from: https://freedomhouse.org/blog/russia-2012-increased-repression-rampant-corruption-assisting-rogue-regimes (accessed 25 October 2016).

2005, p. 181). In 2011, Transparency International ranked the company 35th out of 44 global oil companies in how they tackled corruption.[19]

Ledeneva (2012, 2013), however, underlines that to understand the relation between the economy and the state in Russia, we need to grasp the significance of the *sistema*—a network of relations linked through informal practices, clans and personal relations governed by unwritten rules and codes, which does not always count as corruption in the Western sense (see also Kumar 2005; 2005). On the contrary, 'if an individual making personal gains is simultaneously making a positive contribution to society, many will see such actions as at least acceptable and sometimes even a "just reward"' (Ledeneva 1998, pp. 42–43). However, the difference between transitional Russia in the 1990s and aspirational Russia in the twenty-first century is that what used to be an integrative function of society which reduced the privilege gap between insiders and outsiders of the centralised distribution system, has seemingly turned into an excluding mechanism. Once termed 'relational capital' (Gaddy and Ickes 2002, pp. 122–126), it has been transformed from a system of mutual benefits into a system of mutual enrichment. This monetisation of *blat* and 'the modernisation trap of informality' (2013, p. 108), Ledeneva argues, have severe ramifications for the Russian economy:

> Informal networks enable Russia's leaders to mobilise people and resources for their modernisation projects. In the process, they create vested interests and lock politicians, bureaucrats and businessmen into informal bargains and pledges of loyalty that then impede change and modernisation (Ledeneva 2012, pp. 23–24).

However, Ledeneva expresses ambivalence about drawing, under Putin, a clear-cut line between *sistema* and corruption, sociability and instrumentality (Ledeneva 2014). Meantime, NBIM and the Council of Ethics have tightened their view of corrupt practices as the Oil Fund has enlarged its investment portfolio. In 2004, the Oil Fund adapted to internationally established norms on corruption, such as OECD's *Good Practice Guidance on Internal Controls, Ethics and Compliance* (Council of Ethics 2015, p. 32). Although this Guidance is legally non-binding, it lists a set of good practices that 'companies should consider, inter alia, for ensuring effective internal controls, ethics, and compliance programmes or measures for the purpose of preventing and detecting foreign bribery'. In the case of Delta Topco, the Guidance emphasises the application of such practices, 'where appropriate and subject to contractual arrangements, *to third parties such as agents and other intermediaries, consultants, representatives, distributors, contractors and suppliers, consortia, and joint venture partners*' (OECD 2010, my italics). As a result, it is reasonable to claim that the Guidelines should apply to the case of the Oil Fund and the Russian Grand Prix for two reasons. First, even though they are directed at companies, the Oil Fund, as a SWF, is increasingly influential in shaping the manner in which states are encouraged to implement compliance programmes (Rose 2015). Second, the Russian Grand Prix can be considered a third party in the sense of the Guidelines, with Delta Topco in the middle, as it owns the deal between Formula One Group and the race organisers. This allows for a more general discussion of the problematic.

General Discussion

It is important to underline that the challenges of mixing government investments with sports and commercial actors are not limited to either Russia, Delta Topco, or Formula 1. The latent discrepancy as described above between various standards on corruption indicates that the Oil Fund and other large investors need to address social awareness in a particular way when engaging with the global economy of sports as an investment arena. While global sporting governing bodies are non-profit organisations, most stakeholders in sport are not, and political circumstances are sometimes downplayed. Prior to the 2014 Formula 1 Russian Grand Prix, Russia received international criticism over the Ukraine incursion, and for not assisting the international community in investigating the shooting down of Malaysia Airlines flight MH17 over Ukraine, killing 298 people. The European Union (EU) and the USA also imposed restrictive sanctions against Russia (European Union Newsroom 2016), in which Norway took part. A spokesman for FIA, however, said on 1 October 2014 that it did not want to interfere with the Russian Grand Prix since, as a matter of policy, it 'does not mix politics and sport' (cited from Johnson 2014a; see also Johnson 2014b; AFP/Yahoo! Sports 2014).

As evidenced elsewhere (Allison and Tomlinson 2017), and noted above, a multifaceted mix of idealism and commercialism, nationalism and cronyism, has penetrated global sporting events such as the Olympics, Formula 1 Grand Prix, or the FIFA World Cup around the world. For example, in 2015, Swiss and US authorities charged thirty FIFA officials with criminal mismanagement, racketeering, wire fraud and money laundering conspiracies (Allison and Tomlinson 2017). The FIFA case serves as an example of an economic landscape where the investment is exposed to less reliable influences and opaque networks over which the investor may

[19] 'Transparency International on oil companies and corruption: who is the most open?' *Guardian*, 1 March 2011. Available from: https://www.theguardian.com/news/datablog/2011/mar/01/transparency-international-oil-corruption#data.

have little control once the investment is made. Politically, as advocated by Meier and García (2015), there seems to be a particular risk–benefit strategy involved: 'FIFA presides over a large grassroots movement, acting also as a not-for-profit NGO in football's transnational regime when it suits. Therefore, national governments seem to be willing to avoid conflict with FIFA in order not to test the consequences of their policies in their voters in the risk of suspension'. In some cases, sport and politics are deliberately kept apart for other reasons. For example, the Norwegian government made no change in the Oil Fund's investments tied to the Grand Prix, despite the country's commitment to international sanctions against Russia.

The nonetheless practically inseparable relation between sport and other sectors can be related to the business model of Formula 1, described above. Traditional Formula 1 venues rely much more on private investors than new race hosts, which makes the races vulnerable to economic fluctuations. This has influenced a geographical shift as emerging countries see these events as sources of soft power. In 1998, the year before Malaysia hosted its first Formula 1 Grand Prix, 70% of the races were held in Europe. By 2013, Europe's share had sunk to 40%, despite the addition of three extra races to the calendar (Day 2014). Apart from Malaysia, first-timer races in the early twenty-first century were hosted in South Korea, China, Singapore, Bahrain, Abu Dhabi, India and, finally, Russia. What is exceptional in the case of Russia is that the Sochi Olympics and everything related to it were part of an agenda where soft power was used to create domestic, rather than international, self-esteem (Grix and Kramareva 2015).

In general, because these sporting events are governed by global sporting bodies and financed by partnerships between states and corporate investors, it becomes crucial to take into account Szymanski's (2016) above-mentioned emphasis on the difference between legitimate and illegitimate inducements in relation to the bidding process for sporting events. According to the OECD, public SRI policies are growing in importance as the biggest ethical risk (57%) to sporting events is bribes being paid to obtain public procurement contracts (OECD 2016, p. 5). As the corrupt practices of numerous countries become tangled up with the global economy of mega-events, as well as with the corporate intricacies of transnational holding companies, those mega-events seem afflicted by what Numerato and Baglioni (2012, p. 594) call the darker side of social capital in the world of sports, 'situations in which trust, social ties and shared beliefs and norms that may be beneficial to some persons are detrimental to other individuals, sport movements, or for society at large'. In light of this, we cannot exclude the possibility that the Council of Ethics in 2014, prior to the Formula 1 race, did investigate Delta Topco's role in everything that had happened since 2010. In March 2014, Yngve Slyngstad, chief executive of the Oil Fund, even made a rare break with the Fund's policy of never commenting on individual investments to describe the bribery accusations against Ecclestone—which turned out to be valid—as troublesome.[20]

Conclusion

Large corporations, media companies and governments increasingly invest in the global popularity of athletics, football and motorsports. At the same time, because of the International Sport Associations' power to influence various groups and issues across the world, they have become regular visitors in the corridors of the UN and the OECD, and in the offices of state leaders. Research on FIFA and the IOC have therefore raised the question to what extent ISAs and their events 'can escape becoming politicized' (Meier and García 2015, p. 903) altogether? While the complete answer to that is outside the scope of this paper, an essential part of it is nonetheless investigated through the financial intricacies of the Norwegian Oil Fund's investment in Delta Topco. As demonstrated above, the particulars of the global economy of sports require from its ethically motived investors an enhanced level of due diligence as well as improved culpability standards from the sport's governing body.

The case of the 2014 Russian Grand Prix, of which Delta Topco was a business partner, was chosen because of reports claiming that building the Formula 1 race track—part of the infrastructure created for the 2014 Sochi Olympics—had enriched a small group of people in an ethically questionable way. If these reports are accurate, the investment could have been in conflict with the Oil Fund's own ethical guidelines. The results of this inquiry are, however, inconclusive. There is insufficient objective evidence to suggest that the Oil Fund should withdraw its investment in Delta Topco. Because several of the reports criticising the Sochi Olympics are written by Russian opposition leaders, we cannot avoid the possibility of politically biased perspectives on the issue. Russian authorities have also pledged to fight corruption with the establishment of the Anti-Corruption Council in 2008, an effort that peaked with Putin's national anti-corruption plan for the period from 2014 to 2015 (Motyl 2016; see also *Economist* 2014; Guriev 2014).

That said, the case of Delta Topco, irrelevant of whether something illegal can be proven or not, is representative of the likely need for a new set of examination procedures within the Council of Ethics. Despite the fact that third party

[20] 'Norway's oil fund launches attack on F1's Bernie Ecclestone', *Financial Times*, 11 March 2014. Available from: https://www.ft.com/content/09c3911c-a942-11e3-b87c-00144feab7de (accessed 19 August 2017).

relations are included in the Oil Fund's understanding of corruption, the responsibility chain is still unclear. Føllesdal (2007) concludes that 'if broadly shared, the ethics standards [of the Oil Fund] may help investors that seek to act responsibly, and thus help shift the expectations and behaviour of corporations and governments towards a more just international basic order' (p. 433). Although a withdrawal from Delta Topco were discussed in Norway at government level for other reasons (for contravening its financial mandate),[21] there is, however, little to suggest that the special nature of the global economy of sports was part of the deliberation. Consequently, if it aspires to be a transformative force in the global economy, and particularly in the global economy of sports, the Council of Ethics should consider a broader array of data and an exploration of the issue based on the specific nature of the field, rather than leaning on established definitions in order to make judgments on where to invest the Oil Fund.

Compliance with Ethical Standards

Conflict of interest The author declares that he/she has no conflict of interest.

Ethical Approval This article does not contain any studies with human participants performed by any of the authors.

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[21] A series of articles with emphasis on the secrecy from NBIM were published in the Norwegian business daily *Dagens Næringsliv* in November–December 2014. A report on the process is available from: http://www.skup.no/metoderapporter/2014/30%20-%20OLjefondet%20og%20Formel%201-aksjene.pdf (in Norwegian only, accessed 1 October 2016).

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