

ENERGY POLICY

**OIL AND
RUSSIA'S POLITICAL REGIME
AT STAGES
IN POST-COMMUNIST DEVELOPMENT:
CONTINUITY OF RENT SEEKING WITHIN
THE RAW-MATERIAL PARADIGM**

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Introduction

On 28 April, 2010, during a business trip to Astrakhan on the Caspian, Russian Prime Minister Vladimir Putin personally pushed the button to start the region's first drilling unit on the Korchagin platform. This moved Russia offshore in its sector of the Caspian and confirmed that the Kremlin was as determined as ever to remain within the raw-material paradigm; the nature of the political stimuli in the corridors of power became much clearer.

It should be said that the rent-seeking angle throws the most typical features of Russia's political regime into bolder relief.

Here I have examined the rent-seeking phenomenon of Russian power at various stages of post-communist development in the oil sphere, the country's key resource, and the correlation between the raw-material opportunities and the principles of political organization in Putin's Russia.

Preamble: Oil and Russia

In the last fifteen years, the oil and gas factor has been responsible for impressive economic and political changes in Russia. Put in a nutshell, they can be described as follows:

1. Russia's economy has become geared toward raw materials, the oil and gas sphere in particular, which has developed into the most successful branch of the post-Soviet economy.

Whereas in 2000, the share of oil and gas in Russia's export was 30%, by 2008 it had increased to 54%.¹ Prominent economist Sergey Glaziev has pointed out that in recent years Russia's economy has been demonstrating a "raw-material bias" unacceptable for any developed country: trade in mineral resources is responsible for over three quarters of the federal budget revenues.²

In the post-Soviet period, oil in Russia has become the most coveted natural resource with the largest income potential and a target of stiff competition.

2. The chaotic social decentralization of the 1990s invested the regions with a lot of power over their natural resources; continued regionalization of the state, which gave the regions real power, added fuel to the flames of the political rivalry already raging over local economic and natural resources.

President Putin's centralization of power designed to suppress local egoisms pushed this resource-related rivalry up to the national level.

3. The market reforms in Russia polarized the regions and reshuffled, at an unprecedented rate, the national wages fund.³
4. The banking elite, which in the early half of the 1990s represented the power and the glory of Russia's business community, preserved its power by migrating into the oil sector to become a real elite of wealth.⁴

The raw-material dependence of Russia's economy at all levels created a lot of concern in the country's analytical community about the future of modernization in Russia.⁵

¹ See: *Rossia v tsifrakh*, Goskomstat Rossii, Moscow, 2000, pp. 356, 368-369; V. Inozemtsev, "Porvat s traditsiyey," *Ekstra tekst*, Issue 2, Part 4, 2009, available at [<http://www.politstudies.ru/extratext/lm/flm009.htm>].

² See: S. Glaziev, "Diskussia 'Mezhdu vyborami.' Ekspertnyy opros gazety *Zavtra*," *Zavtra*, 30 January, 2008, p. 1. The situation continued into 2010 when oil and gas brought 3.194 trillion rubles to the federal budget out of total revenues of 6.95 trillion, or 32.3% of budget spending in 2010. It was calculated that even if only direct oil- and gas-produced revenues (severance tax and export dues) are taken into account, 62% of the 2010 federal budget depends on oil prices, available at [<http://rusanalit.livejournal.com/814654.html>].

³ See: K. Ivanov, "Propast mezhdru regionami—ugroza tselostnosti Rossii," *Ekobomika i zhizn*, No. 8, February 1997, p. 1. This trend was obvious in the 2000s. In the last 10 years, the regions (as well as urban and rural communities inside the regions) have been demonstrating obvious inequality in revenues. The stunning oil prices (and oil revenues) of 2000-2008 merely intensified the trend.

⁴ See: E. Khartukov pioneered investigations of this new phenomenon in his "Bankers Becoming New Masters of Oil Companies," *Petroleum Economist* (London), Vol. 64, No. 2, February 1997, pp. 6-8.

⁵ This concern was obvious even before the "petroleum era" habitually identified with Putin (see, for example: E. Kvitko, "Neft vmesto reform. Interview s ispolnitelnym direktorom Ekspertnogo instituta A. Neshchadinym," *Moskovskie novosti*, 4-10 April, 2000, p. 10).

The Rent-Seeking Phenomenon: My Analysis

For the purposes of my analysis, rent-seeking should be further specified since it has different interpretations: I relied on “rent seeking” as described by Anders Åslund to clarify the political interests in transition societies (a Russian case study).⁶

On the whole, there are economic (profit-seeking) and political (rent-seeking) investments; here I shall dwell on the political aspect of the rent-seeking phenomenon developing in the context of Russia’s (as a transition society) shaky stabilization moving toward a market economy. Rent seeking is realized as the usurped right to distribute and redistribute resources.

It should be said that rent seeking in a fairly complicated transition context can be described as an unproductive form of social stabilization which allows certain groups to block off market competition to be free to pursue their own interests.

Rent seeking in Russia can be divided into two stages with forms and scales of their own.

- *The first stage* coincided with the 1990s when the stormy fragmentation of the Russian political field inevitably decentralized rent seeking; groups with specific interests and rent-seeking practices were taking shape at the regional level.
- *The second stage* covered the 2000s when rent-seeking behavior survived, albeit in a different vector: rent-seeking practices became centralized and “Kremlin-ized” to arrive at a rentier state.

In both cases, rent was extracted through complicated combinations in which the state and business were involved at different levels and in different combinations; politization of the oil business shows that the state has recognized “black gold” as a much more promising alternative than many others to be used to address numerous social problems.

1. Yeltsin’s Epoch: Social Fragmentation and Regionalization of Rent-Seeking Practices (Caspian Oil and the Russian Regions: the Nature and Directions of Local Political Stimuli)

I have posed myself the task of tracing the route that brought the regional elites to transportation of Caspian oil. The process began in the first half of the 1990s when a grandiose oil project, the Caspian Pipeline Consortium (CPC), was launched in the south of Russia intended to move Kazakhstan oil from Tengiz (on the northern Caspian shore) to Novorossiisk (on the Russian Black Sea coast).

The following describes how the regional ruling groups became involved in distributing resources.

The political decentralization of the 1990s caused a rush for control over economic property and resources; regional leaders were setting up, with gusto, a system of “administrative racket” and what

⁶ See: A. Åslund, “Reform versus ‘Rent-Seeking’ in Russia’s Economic Transformation,” *Transition*, Vol. 2, No. 2, 26 January, 1996, pp. 12-16.

became known as governor's economics to consolidate their political basis. The man-in-the-street habitually expected a "better future" from the local authorities.

Unrestricted and mutually uncoordinated, the regional elites were free to pursue their own political interests.

The gaps between the regions created tension and political conflicts; in the absence of investments and a labor market, the regions found it hard to identify their economic niches and relied on their natural resources and geographic location for competitive advantages.

The 1998 default, a product of the chronic budget deficit, was interpreted in the regions as an end to federal subsidies; from that time on, rent and the struggle for it became the main driving force behind the economy.

The above is best illustrated by three regions with unique agricultural specializations: the Astrakhan Region (fishing in general and the sturgeon-related industry); Kalmykia (sheep breeding), and the Krasnodar Territory (developed agriculture and the recreation industry).

In the late 1990s, when the three regions became transit territories for the CPC, the local leaders developed oil-and-gas priorities. The regional rulers, city administrations, and the public found themselves in the heat of a public political struggle for transit fees in favor of the regional and local budgets.⁷

This suggests an answer to the question: What did the regional elites intend to gain from the expected oil boom? The elites of the three regions were guided by the same desire: they wanted to control the transit and raw-material resources to secure their political goals. This is best described as rent-seeking behavior.

The oil and transit factors created new stimuli and readjusted the behavior of the regional economic and political players: they intended to use transit fees to resolve some of the local problems. In the economically deficient regions, these expectations made political battles for control over raw materials and transit flows inevitable.

The political leaders of the Astrakhan Region, the Krasnodar Territory and, to an even greater extent, Kalmykia, behaved as rentier elites prepared to "skim" oil exports; severe political rivalry could no longer be avoided.

The acute territorial conflict between the Astrakhan Region and Kalmykia was caused by the ardent desire of their political elites to grab as much money as possible in the form of transit fees through the disputed lands. The people were lavished with promises of fantastic future prosperity and incredible wealth.

Former President of Kalmykia Kirsan Iliumzhinov said that the country should become a petroleum republic and added "with oil production of up to 3 million tons there will be no need for people to work"; normally very restrained former governor of the Astrakhan Region A. Guzhvin joined in the chorus.⁸

The change in power in the Kremlin created a multitude of questions; the regional leaders wondered how the end of the Yeltsin era would affect their positions and whether they would be allowed to draw "pipeline" rent and keep oil production and oil transit in the political field.

The first months of Putin's presidency created cautious comments about the limited federal impact on the regional leaders. The most perspicacious of analysts, however, spoke about radical changes on the political arena.

In his Introduction to *The Political Economy of Russian Oil* (which appeared in 1999 while Yeltsin was still president), David Lane offered a much more correct forecast: "There is a potential ... for the

⁷ For more detail, see: A. Magomedov, R. Nikerov, *Bolshoy Kaspiy. Energeticheskaya geopolitika i tranzitnye voy-ny na etapakh postkommunizma*, Ulaynovsk, UIGU, 2010, pp. 36-94.

⁸ See: *NG-Regiony*, No. 15, 1998, p. 4; *Obshchaya gazeta*, 7-13 September, 2000, p. 6.

president to gain greater control and probably to move toward a self-generating form of capitalism with the energy industry at its center.”⁹ The president alone, as the key factor and driving force, could implement this scenario, which the then dominating export-orientated private oil companies could not accept since it contradicted their interests.

David Lane concluded his Introduction with “further internal dislocation and a new nationalist or Communist president could well turn the country in the direction of a more corporate state capitalism.”

2. From Yeltsin to Putin: Kremlin-ization of Rent Seeking and the Establishment of a Rentier State

With Putin’s advent to power, the idea of a national state moved to the fore to become the strongest political emotion in Russia in the 21st century.

Here I shall analyze the impact of the oil and resource factor in general on Russia’s domestic policy in the 2000s.

Yeltsin’s regime survived in the 1990s by decentralizing power; this was the time of highly personalized regional regimes seeking short-term priorities (classical rent-seeking behavior) amid political turmoil.

Putin, on the other hand, steered a course toward centralized power and depersonalized political processes in the regions; the time had come to suppress local egoisms, centralize financial and raw-material resources, and put on more pressure in line with the “resource accumulation” obvious all over the world.

Under the new law, 100 percent of severance tax went to the federal treasury; the local leaders left out in the cold grumbled. The Astrakhan Regional Duma, for example, described the new budget policy of the federal center as “destructive for the territories;” a boycott of the elections to the State Duma in December 2003 was also suggested.

Elista (the capital of Kalmykia) reacted very much in the same line: the government’s decision to take 100 percent of the transit fee for using Kalmykia’s territory was described as a “gross violation of the principles of federalism and elementary fairness.”¹⁰

So Putin’s state centralization policy and efforts to keep the political influence of the regional centers in check led to the regional authorities being deprived of the opportunity to draw rent from the pipelines in the form of CPC revenue and keep oil production and oil transit in the political field, as they had wanted.

The Putin Factor in the Development of Russian Energy Policy

At the beginning of the 21st century, an oil boom decade began in Russia prompted by the unprecedented increase in world oil prices; beginning in 1996, the cost of one barrel of oil rose almost ten-fold.

⁹ D. Lane, Introduction, in: *The Political Economy of Russian Oil*, ed. by D. Lane, Rowman & Littlefield Publishers, Inc., Lanham, Boulder, New York, Oxford, 1999, p. 10.

¹⁰ *Vecherniaia Elista*, 26 January, 2002

It should be said that the new policy was Putin's brainchild, an opinion shared by the analyst community and top managers of oil companies. "Vladimir Putin has proved that he is master of the economics, politics and technical details of the energy business," wrote American observer Andrew Kramer. He added that the Russian president had emerged as a politician deeply interested in his country's most important economic branch.¹¹

According to Lord Browne, former BP president, "Putin was well briefed and knew a lot about BP and about me. He was very impressive. I remember thinking to myself: regardless of what this man stands for, he is exceedingly competent."¹²

From his very first days in the Kremlin (2000), Putin remained convinced that the state could be revived by exporting natural resources, energy resources in particular. This allowed Marshall I. Goldman, an American expert in Russia, to write: "Russia has emerged—even if inadvertently—as a different breed of a superpower, one whose power rests on economics and energy."¹³

During his eight years as president, Putin coped with the task of setting up a system capable of profiting from the market economy and its advantages and keeping private business riveted to the state's strategic interests. The state "pacified" Mikhail Khodorkovsky, a well-known oil magnate, who intended to sell his YUKOS Company to ExxonMobil and Chevron.¹⁴

Vladimir Putin changed the Product Sharing Agreement for Sakhalin (which he dismissed as "colonial") in Russia's favor.

As distinct from the Western press, which treated Putin's economic strategy superficially and crudely as "nationalization," Marshall Goldman in his *Petrostate* deemed it necessary to point out, "In all fairness, the way the Russian government reacts when foreign investors attempt to buy their energy resources is not that atypical of how most countries react in a similar situation."¹⁵

It is commonly believed that after the federal reform and "equidistance for the oligarchs" (the YUKOS case is the most graphic example), the state became autonomous of external influence groups. The truth is that, even in the new context, there were competing clans which used state resources, while the state was disintegrating into groups. Gazprom's attempt to become an energy mammoth, Gosneft, by swallowing Rosneft serves as the best example. It took several months of behind-the-scenes fracas to stop the pressure.¹⁶

Later, in November 2005, Gazprom was allowed to buy Roman Abramovich's Sibneft for \$13.1 billion, which made Gazprom and Rosneft the key players in Russia's oil and gas context. These two largest companies supplied Putin's critics and the experts with their thesis about "nationalization" of Russia's oil industry.

The expert community differed on its assessments of the power, property, and political system shaped by Putin. Some experts talked about authoritarianism, others about "sovereign" democracy, while the majority used the terms "nationalist authoritarianism," "centralized corporate etatism," "situational bureaucratic-authoritarian statehood," etc.

¹¹ *The International Herald Tribune*, 30 January, 2009.

¹² J. Browne, "Regardless of What Putin Stands for, He is Exceedingly Competent," *The Times*, 5 February, 2010.

¹³ M.I. Goldman, *Petrostate: Putin, Power, and the New Russia*, Oxford University Press, USA, 2008, p. 16.

¹⁴ Well-known analyst William Engdahl offers the details and preliminaries of this court case in: W.F. Engdahl, "The Emerging Russian Giant Plays its Cards Strategically," *Global Research*, Canada, 20 October, 2006.

¹⁵ M.I. Goldman, *op. cit.*, p. 87.

¹⁶ The fact that the heavyweights from the Kremlin and the Cabinet: from Gazprom (A. Kudrin, D. Medvedev, A. Miller, V. Khristenko); S. Oganessian (who headed the Federal Energy Agency); and from Rosneft (S. Bogdanchikov and I. Sechin) were involved in the conflict, which lasted from December 2004 to February 2005, shows that the victory was hard won. The battle was accompanied by both sides' numerous public commentaries in the media (see: D. Skorobogatko, D. Butrin, I. Rybalchenko, E. Kiseleva, "Gosudarstvo raskololos na neft i gaz. Borba za control nad 'Rosneftiu' pereshla v otkrytiu fazu," *Kommersant*, 2 February, 2005, pp. 1, 13).

It is commonly believed that the Russian state system is corporate; this means that the country is ruled as a big corporation with the help of corporate-clan structures. Andrey Illarionov, Putin's political advisor and later one of his most vehement critics, supplied the most colorful arguments to prove that Russia under Putin had become a "corporate-police" state. On 28 November, 2005, he was invited to the Russian State Humanities University to give an open lecture on "The Venezuela-zation of Russia." To prove his point, he ascribed the symptoms of so-called Dutch disease (an inflow of foreign currency, rapid increase in the money supply, growth of import, decline of national industry, and galloping inflation) to what he called the Venezuelan disease. Later he went even further to compare Russia's corporate state of Putin's time with the corporate state of Benito Mussolini, who spoke a lot yet said very little.

Later, more Putin critics (from Kasparov to Brzezinski)¹⁷ joined in the game with no less colorful epithets.

The above can be described as the extreme opinion about Putin's Russia, a product of ideological bias and fanning of passions. Prof. Peregudov, on the other hand, has offered his opinion of the corporate state conception which, he argued, simplified and rectified the intricacies of political relations in Russia.¹⁸

Emotions and assessments apart, the facts speak for themselves: the share of state companies in oil production in the "early Putin era" (2000-2005) was 26%, which is not a lot.¹⁹

In 2003, these companies accounted for 24%, in 2007 their share increased to 37.3% (see Table 1), and by the mid-2008, it had reached 43%.²⁰ This means that after 2003 the state merely increased its direct control over the oil and gas industry, which cannot be described as "nationalization."

It should be said that privately controlled companies are responsible for over half of the oil produced.

The above disproves the thesis that "under Putin, privatization moved backwards" even to the point of "full state revenge" and that those who think the oil industry was completely or almost completely nationalized in Putin's Russia are wrong. This is what Thomas Gomart of the Institut français des relations internationales (IFRI) has to say on the matter: Under Putin, energy-related policy based on re-nationalization of assets became the most important and obvious factor of Russia's power. This factor inspired Russia in its race for prestige, which developed into the Kremlin's internal and external obsession.²¹

Before the financial crisis of 2008, state-owned enterprises and companies with predominant state involvement accounted for about half of Russia's capital stock, Gazprom being the best example of the arrangement. It is a "hybrid," a state-private corporation. According to *Kommersant*, the state's share in Gazprom (in October 2009) was 49.773 percent.²²

¹⁷ See: A. Illarionov, "Drugaiia strana," *Kommersant*, 23 January, 2006; G. Kasparov, "Vykhoda net. Kakoy stroy segodnia v Rossii?" Interview at Echo of Moscow radio, 2 May, 2008; Z. Brzezinski, "Putin's Choice," *The Washington Quarterly*, Vol. 31, No. 2, Spring 2008, pp. 95-116.

¹⁸ See: S. Peregudov, "Biznes i biurokratia: osobennosti simbioza. Mozhno li schitat Rossiu korporativnym gosudarstvom?" *Nezavisimaia gazeta*, 11 March, 2006; idem, "Politicheskaia sistema Rossii posle vyborov 2007-2008 godov: factory stabilizatsii i destabilizatsii," Part 2, *Polis*, No. 3, 2009, pp. 158-159.

¹⁹ See: P. Orekhin, E. Samedova, "Korporatsia 'Kreml' uspeshno porabotala," *Nezavisimaia gazeta*, 26 July, 2005, pp. 1, 3; O. Vinogradova, "'Puting' v deystvii," *Neftegazovaia vertikal*, No. 15, 2007.

²⁰ See: *Vedomosti*, 9 June, 2008; S. Peregudov, "Politicheskaia sistema Rossii posle vyborov 2007-2008 godov: factory stabilizatsii i destabilizatsii," Part 2, p. 150.

²¹ See: T. Gomart, "Russia Alone Forever? The Kremlin's Strategic Solitude," *Politique Etrangere*, Vol. 73, Issue SPECI, 2008, pp. 23-34.

²² See: O. Mordiusenko, D. Rebrov, "'Gazpromu' predlagaiut sdat aktsii. Chtoby vosstanovit kontrol gosudarstva nad monopoliey," *Kommersant*, 22 October, 2009.

Table 1

Oil and Gas Condensate Produced in Russia in 2007
(million tons)

Company	Production
I. State-controlled (federal and sub-national)	
1) Rosneft*	101.2
2) Gazpromneft	45.3
3) Tatneft	25.7
4) Bashneft	10.7
II. Privately owned:	
1) LUKoil**	91.1
2) TNK-BP	89.6
3) Surgutneftegaz	63.8
4) Russneft	14.2
III. Others	50.0
Total	491.0
The Share of State-controlled companies (%)	37.3
<p>* In 2008, Rosneft's share increased slightly compared to 2007 from 101.2 to 106.1 million tons.</p> <p>** LUKoil's production of crude oil in Russia (without its involvement in international co-operation and its place in world's production).</p>	
<p><i>Sources:</i> Ph. Hanson, "The Resistible Rise of State Control in the Russian Oil Industry," <i>Eurasian Geography and Economics</i>, No. 1, 2009, p. 15; <i>Vedomosti</i>, 22 July, 2008 (figures for Gazpromneft); [http://www.gks.ru/bgd/B08_11/lssWWW.exe/Stg/d02/14-09.htm; http://www.Rosneft.com/Upstream/ProductionAndDevelopment; http://www.lukoil.com/static_6_5id.25k_html; http://www.tnk-bp.com/company; http://www.surgutneftegas.ru/eng/about.xpml; http://eng.russneft.ru/community; http://www.tatneft.ru/eng/dobycha.htm; http://www.anrb.ru/ise/banks/eng/branches/neftedob/bashneft/index.htm].</p>	

A new stage of property redistribution in the oil and gas sector began when Rosneft bought YUKOS, while Gazprom bought Sibneft. It claimed new victims. Large-scale projects with a large share of foreign money, such as Sakhalin-1, Sakhalin-2, Sakhalin-3, and Sakhalin-5, and administrative pressure on the Shell-headed consortium in the form of ecology-related fines and fines for the failure to stick to the construction schedule made Gazprom the owner of the controlling share in Sakhalin Energy.

This above testifies to the fact that the state was never unscrupulous when it came to administrative pressure. This instrument was applied selectively; everyone realized that the “rules of the game” had changed. Indeed, in the past (the 1990s), the state had been driven by business considerations.

It remained to be seen what rules would appear in the country once the state captured business. Indeed, was it merely a hint that anyone bold enough to clash with the government would lose his property?

It is impossible to specify the role and nature of the stimuli behind the mounting state control as part of the strategy of “resource accumulation.”

It is the political stimuli which belong to the inner structure of the political system rather than the form of property that count. Russia is currently exhibiting the rent seeking at the federal level that was obvious at the regional level in the 1990s.

It seems that the firm grip of the group now in power on the country’s economy and the rent-seeking behavior of some of its members account for the processes described above.

In Russia, the channels of anonymous “siphoning-off” rent from private or state-controlled companies are virtually the same.

The correlation between private and state interests in the process can hardly be established; it is indistinguishable in the Russian discourse. In other words, in the corrupt political context, the private/state property distinctions are not as clear as it is normally believed.

Ph. Hanson of Great Britain has argued that “in current Russian circumstances the political elite’s objectives of maintaining a monopoly on power and siphoning off resource rents may be served as well or better by private companies controlled by allies than by state concerns.”²³

The property of many Russian companies is far from transparent; some of them controlled by the state are registered offshore, which makes the borders between business and politics hazy or even nonexistent.

Property of this sort can be concealed; there is any number of reliable and intricate methods in Russia today.

The world’s third largest oil trader, the Gunvor Group founded in 1997, serves as the most graphic example of such practices. Half of it is owned by Gennady Timchenko, Putin’s friend and business partner; Törbjörn Törnquist from Sweden is another owner, while the name of the third owner remains unknown.²⁴

Gunvor International BV set up by a Cypriot company (Gunvor Cyprus Holding Limited) is registered in Amsterdam; several Gunvor companies belonging to Timchenko are found on the British Virgin Islands; both structures have offices in Geneva.²⁵

It is not my task to sort out the Gunvor Group’s offshore connections; I just want to demonstrate the present Russian government’s obsession with business interests and its determination to keep the channels of their realization under cover.

It remains unclear why large, and even state-controlled, companies sell huge amounts of oil to Timchenko’s company (his structure accounts for 60 percent of Rosneft’s oil exports).

Novaia gazeta told a story by A. Navalniy, a minority shareholder of three companies (Gazprom, Rosneft, and Surgutneftegaz) who went to court to obtain information about their deals with the Gunvor Group. He got nowhere and lost every case.²⁶

²³ Ph. Hanson, “The Resistible Rise of State Control in the Russian Oil Industry,” *Eurasian Geography and Economics*, No. 1, 2009, pp. 14-27.

²⁴ See: R. Shleynov, “Kto tretiy vladelets ‘Gunvora’?” *Novaia gazeta*, 12 October, 2009, pp. 2-3.

²⁵ See: R. Shleynov, “Nefetreyder ‘prozrachnoy vody’,” *Novaia gazeta*, 24 August, 2009, pp. 2-3.

²⁶ See: *Ibidem*.

Here is another example. In 2003, Surgutneftegaz of Russia refused to submit its GAAP (General Accepted Accounting Principles) financial reports to conceal information about property.²⁷ Russneft, Russia's eighth largest company in terms of oil production, likewise does not publicize its GAAP reports. The Gunvor Group did not make its business structure public until 2007. There is no detailed information about the mechanisms of NOVATEK, Russia's second largest gas company after Gazprom.

We should admit that the ruling class of the Putin era is following in the footsteps of the oligarchs of the previous, Yeltsin, period. Oksana Gaman-Golutvina, who has made a name for herself by studying the Russian political elite, wrote that "for the first time in Russian history the 1990s became a period of a symbiosis of sorts between power and business. Today it is not easy to detach one from the other."²⁸ In these conditions, the state's stronger control should be interpreted as stronger positions of certain groups of civil servants.

According to head of the Center for Elite Studies at the Institute of Sociology, RAS, Olga Kryshтанovskaia, in the first two years of Putin's presidency, the upper echelon of power changed a quarter of its member. The new leader, however, preserved the oligarchic model of property and power he inherited from the 1990s.

I am not going to quarrel with the comment, albeit inaccurate, that under Putin "the Yeltsin oligarchs either disappeared or prefer to keep low profile."²⁹ It is not my intention to discuss personalities—I am going to analyze the government that reproduced oligarchic leechlike behavior and that Putin preserved intact.

While holding forth about a "strong state," Putin's closest circle adapted the oligarchic mechanisms of redistribution of the 1990s to the new reality. Very much as before, the new interest groups were geared toward grabbing and rent seeking as the principal form of their existence and management. This is largely responsible for the inefficiency of Putin's state.

Putin's law-enforcement colleagues did a lot to shape Russia's political image; they changed the regime, but remaining within the bounds of the 1990s, and transformed the Yeltsin anarchic autocracy with its carnival undertones into a hierarchical paternalist state based, very much as before, on rent-seeking and oligarchic stimuli and short-term interests.

The split inside Putin's elite within the Yeltsin model is nothing more than a form of redistribution of power and property among the individual cells of the same system. This is best shown by the shocking details of the "CHEKA infighting" Victor Cherkessov, former head of the Federal Drug Control Service and one of Putin's comrades-in-arms, revealed in his article "Nelzia dopustit, chtoby voiny prevratilis v torgovtsev" (We Cannot Allow Fighters to Degenerate into Petty Traders).

Co-owner of the industrial-financial Finansgroup Company O. Shvarzman said practically the same thing in his interview "Partiia dlia nas olitsetvoriat silovoy blok, kotory vozglavliaet Igor Ivano-

²⁷ See: C. Belton, N. Buckley, "On the Offensive: How Gunvor Rose to the Top of Russian Oil Trading," *Financial Times*, 14 May, 2008; Ph. Hanson, op. cit., p. 25. The same happens in other branches. The Arbitral Court in Zurich recognized former RF minister for information technologies and communications L. Reyman as the only beneficiary owner of the Bermuda IPOC fund and owner of a number of offshore companies registered under several jurisdictions and connected with IPOC business. The Russian authorities refrained from any comments; they merely blocked this information for the Russian media (see: I. Tsukanov, R. Dorokhov, "Svidetel No. 7. Arbitrazh Zurikha priznal ego benefitsiarom POC," *Vedomosti*, 23 May, 2006).

²⁸ O. Gaman-Golutvina, "So-doklad k dokladu A. Evina, 'Dilemma evropeizatsii v svete sopernichestva vnutri elit. Na sravnitelnom opyte Turtsii i Rossii,'" in: *Russkie chtenia*, Issue 1, December 2004-June 2005, Gruppya ekspert, Moscow, 2006, p. 83.

²⁹ A. Samarina, "Pervaia desiatiletka V. Putina. Evolutsia ot agonii separatizma k gosudarstvu-mifu," *Nezavisimaia gazeta*, 7 August, 2009.

vich Sechin” (In Our Eyes the Power-wielding Bloc, headed by Igor Ivanovich Sechin, is the Very Embodiment of the Party).

These two articles, which appeared in the *Kommersant* newspaper,³⁰ told about an intertwining of political and business interests at the level of the presidential administration and the special services.

The “Putin-Khodorkovsky” and “the Kremlin-YUKOS” relationships prove that the nature of the political stimuli and responses demonstrated by the Russian elite today can be described as political continuity rather than a sign of radical changes.

There is not much difference between the way Khodorkovsky treated his business partners and rivals and the way the oligarchs in the Kremlin treated YUKOS.

William F. Engdahl had the following to say on this score: “Subsequent Western media and official protest about Russia’s return to communist methods and raw power politics conveniently ignored the fact that Khodorkovsky was hardly Snow White himself.”³¹

At one time, Khodorkovsky unilaterally cancelled a contract with BP and deprived it of considerable investments. As a one-time partner of YUKOS, BP had invested \$300 million in exploration drilling at the Priobskoe oil fields in Siberia. As soon as drilling was over, Khodorkovsky unseated it ways that most countries of the developed world would consider lawless.

Prof. Michael McFaul of Stanford University, expert on Russia and currently President’s Obama Top Advisor on Russia, poured a lot of irony into his story of how Sechin and other heads of Rosneft bought, through a counterfeit company, the basic assets of YUKOS with their public flotation (IPOs) at the London Stock Exchange; they copied Mikhail Khodorkovsky’s tactics.

Here is his story: “These guys [from the Kremlin] are using his strategy, complete with hiring PR people in Washington, who are spinning people like me and telling me why the offering is not such a bad thing. It seems like they’re following a similar trajectory: They used political power to steal assets and now they are trying to legitimate those assets in the West, which was exactly what Khodorkovsky was trying to do.”³²

The methods are practically identical, even if the tables were turned in 2006: the RF leaders were looking at the West in the hope of developing Russian companies into big international players. In other words, they tried to exchange expropriated property for money and invited large Western financial institutions to invest in Russia’s oil industry.

Under Putin, the political regime changed to a great extent, but rent seeking and the redistribution stimuli of the political elite survived into the 2000s. According to Sergey Kurginian, the state is not viewed as an instrument through which the nation “extends and develops its historical predestination,” but as an instrument of division and redivision of property and legalization of the results.

In fact, Putin’s state, an heir to the Yeltsin system, has preserved the post-Soviet model, the main objective of which is to extend the transition period. This is why it is inefficient and oligarchic in nature.

There is no talk about a greater share of business in the state³³ and the nature of the relations between corporate business and politics. A system of stimuli behind the rent-seeking model of Rus-

³⁰ See: V. Cherkessov, “Nelzia dopustit, chtoby voiny prevratilis v torgovtsev,” *Kommersant*, 9 October, 2007; O. Shvarzman, “Partiu dlia nas olitsetvoriat silovoy blok, kotory vozglavliaet Igor Ivanovich Sechin,” *Kommersant*, 30 November, 2007.

³¹ This is confirmed by former BP head who described his meeting with Khodorkovsky in the following words: “Bespectacled, soft-spoken Khodorkovsky could at first glance be mistaken as unassuming... He began to talk about getting people elected to the Duma, about how he could make sure oil companies did not pay much tax, and about how he had many influential people under his control... But there was something untoward about his approach” (J. Browne, op. cit.).

³² *The Washington Post*, 27 June, 2006.

³³ See: S. Peregudov, who relied on information supplied by “elitologists,” wrote about the increasingly important role the business elite played in state governance. In 1993, only 1.6% of civil servants had previous experience in business;

sia's economy and politics is on the agenda. The Kremlin invariably retreats in the face of groups seeking a firmer grip on rent to the detriment of creative and innovation interests.

C o n c l u s i o n

The rent-seeking concept brings us closer to a more profound understanding of the nature of political stimuli in Russia at all levels of power. The political and economic players are spending too much of their energy on dividing the pork barrel rather than concentrating on productive efforts to create added value and new knowledge.

I have written above that rent seeking should not be mistaken for a purely economic phenomenon; it creates a context in which the quality of the political system and state institutions (used either to curb or encourage rent seekers) comes to the fore.

In the 1990s, the local and regional authorities set up "protectionist racket" in their regions; Vladimir Putin and the new Kremlin leaders opted for centralized protectionist control. In the 2000s, the center monopolized the rent-seeking model.

Russian analyst Sergey Markedonov has written: "The 1990s were the decade of the regional 'political raiders,' the turn of the 'central power raiders' came in the 2000s."³⁴ This is what brings the Yeltsin and the Putin eras closer together.

In the 2000s, Putin and Medvedev were forced to adjust the strategic oligarchic line of the 1990s with the help of petrodollars. Russia was growing rich on the skyrocketing world oil prices: between 1998 and July 2008, the price of one barrel increased from \$10 to \$147.27; between 2000 and 2008, Russia's GDP more than doubled; its international reserves increased 60-fold to reach \$600 billion on the eve of the 2008-2009 world financial crisis.

Here is another impressive fact: in the second quarter of 2009, Russia outstripped Saudi Arabia, the leader of the world's oil sector, in terms of crude oil supplies and petroleum products, producing 7.4 million barrels a day compared to Saudi Arabia's 7 million.

This confirms the thesis of rent seeking as an unproductive model of social stabilization in a transition society (Russia).

Despite manifesting the obvious faults of a corrupt state, the Putin era doubled real incomes, decreased the poverty level by 50%, and increased GDP by 70%; the Stabilization Fund received \$157 billion. In 2007, the country acquired \$1 billion petrodollars every week.³⁵

In the early 21st century (after the 1998 August crisis), the developing energy sector was behind Russia's obvious stronger economic health; it improved thanks to much more efficient taxation of the much higher oil- and gas-created rent incomes. State revenues doubled, while the share of those living below the poverty level dropped from 30% to 14% of the total population. According to Australian expert Robert Cameron, real wages in Russia grew at the rate of about 12% a year; the middle class under Putin swelled from 8 to 55 million.³⁶

in 2002 their share increased to 11.3%; in 2008, to 39.8%. The economic and political elites are intertwining even more: big business is invited to elaborate the "party line" of the United Russia Party, which incorporates business into the power system (see: S.P. Peregudov, "Politicheskaya sistema v Rossii posle vyborov 2007-2008 godov: factory stabilizatsii i destabilizatsii," Part 2, p. 146).

³⁴ S. Markedonov, "Trikolor separatizma," *Gazeta*, 1 April, 2009.

³⁵ See: V. Volkov, Lecture: "Transformatsiya rossiiskogo gosudarstva posle 2000 goda," *Polit.RU. Public lectures*.

³⁶ See: R. Cameron, "Putin Marks 10 Years of Extraordinary Achievement," *The Sydney Morning Herald*, 11 January, 2010.

Under Putin, the country surged forward on old resources and infrastructure. The fact that rent distribution and redistribution, a favorite game of the political elite, remains in the center of Russia's politics is very disturbing.

Dmitry Badovskiy has written that, while talking about innovation priorities, the Russian elite prefers to remain within the familiar and cozy logic of rent distribution.³⁷ The man-in-the-street, who had enough of the "survival struggle" of the 1990s, acquired his share of the rent in the last "prosperous" decade. This fanned the "fire of consumerism:" people learned to regard themselves as part of a "consumer society."

Practiced under Putin, the rentier strategy (centralization and redistribution of the rent through the state budget) improved the nation's material standards. The people at the helm, riding high in the saddle, encouraged consumerism, thus opting for stability rather than dynamism and modernization.

³⁷ See: D. Badovskiy, "Problema bezbiltenika," *Gazeta*, 23 June, 2008.
