

5

The Influence of Russian Big Business on Regional Power: Models and Political Consequences

Rostislav Turovsky

Introduction

In the wake of the Russian transition to a market economy, the interaction of new post-Soviet business and regional/local government has become one of the most important issues on the political agenda. "Business-power" relations has also become one of the most important and popular themes in scholarly study. But there remains a need for a more scientific background to the study of this question.

One approach to this question has been the elitist approach, which tackles the theme in terms of elite transformation. Business elites are seen as an active part of society and of the national elite. Their economic interests encourage them to take part in power struggles and they often seek to become politicians. This leads to a horizontal circulation between political and economic groups. This phenomenon is well known from the history of many western democracies, including the USA and France. As a result, representatives of the business elite gain office in regional administrations and legislatures. The contrary process, politicians entering business, is also possible.

Another approach is instrumental. This discusses the issue in terms of interest (or pressure) groups, lobbies and patron-client relations. The interest groups have their origin in economic relations, but in order to pursue their economic interests, they need political support. Patron-client relations arise, for example, when business groups try to achieve their economic goals with the help of friendly state and municipal authorities. In the process of integration, business groups and politicians form political-economic clans.¹ This sort of development usually occurs in cases of less transparent political regimes with an underdeveloped public policy sphere.

The latter approach is also close to the theory of rational choice. In terms of "business-power" relations, rational choice theory points out that business groups use friendly political power in order to expand their business. They thoroughly calculate profit coming as a result of political bodies' decisions and look at how expenditures on political campaigns and lobbying pay off.

These approaches seem relevant to studies of "business-power" relations in Russia. The processes of both regime and elite transformation in Russia made the strengthening of ties between ruling elites and a rising business inevitable. The transformation of Russian regional elites is closely tied with the gradual loss of the Soviet nomenklatura's influence. There are several reasons why the business elite began to come to power in the Russian regions.

1. The Soviet nomenklatura is losing its positions in the regions due to generational change.
2. Post-Soviet business is the only source of the new elite that originated in the course of the reforms. And it represents the socially active part of modern Russian society.
3. The reforms made possible the change of the dominating regional leaders' type from ex-Soviet to "capitalist" manager.

But elite rotation in the Russian regions is very gradual. Our studies show that the share of former Soviet nomenklatura representatives among the Russian governors became less than 50 per cent only in the last few years. When the governors were appointed by the president in 1991–1995, Yeltsin chose them from the politically loyal nomenklatura. Few appointees were directors of industrial and agrarian enterprises. In the beginning of the 1990s Russia had neither oligarchy nor lobbyism.

The development of capitalism in Russia and the regional authorities: from colonialism to clientelism

In post-Soviet Russia, the formation of capitalist relations was the principal factor determining "business-power" relations. At the beginning of the economic reforms, the ruling elites at all levels set and led the privatization process. They could define the results of privatization deals and auctions; they could also screw competitors. Russian capitalism is commonly portrayed as state-bureaucratic and crony in nature. The ruling elite was a mixture of the old nomenklatura, new economists and brand-new businessmen.

Under such circumstances the formation of clienteles including state officials and businessmen began:

- State officials became patrons for these clienteles, as a rule in regions with more stable and powerful ruling elites holding their positions from the Soviet times.
- Recently businessmen have taken the lead as they started to play the role of patrons and control regional bureaucracy in their own interests.

The business elite considered state and municipal offices as an opportunity to expand its business with the help of administrative powers and through the establishment of informal patron–client relations with their holders. A jocular interpretation of the Marxist formula became relevant: “Money – power – more money.” The introduction of gubernatorial and mayoral elections in the mid-1990s strongly influenced the process of direct and personal involvement of businessmen in political activities, like elections and the holding of state and municipal offices.

In elections, businessmen had some advantages – a sufficient amount of money and sometimes an attractive image. The good image came from the impression of businessmen’s personal activities and successes, sometimes even charisma, and the absence of negative associations with nomenclatura. The very new (though rare to find) type of Russian governor in the beginning and middle of the 1990s was the Moscow businessman of regional origin or authentic regional self-made man. The first important example was Kirsan Ilyumzhinov, a young Moscow businessman of Kalmyk origin, elected president of small and poor Kalmykiya in 1993.² The best examples of regional self-made men were Valentin Tsvetkov in Magadan oblast and Vladimir Butov in Nenets autonomous okrug, both elected governors in 1996.

The interaction between regional authorities and business elites has followed a particular pattern. In the beginning, regional-level businessmen came to hold regional power. Privatization in the regions was in the first stage conducted in the interests of regional players, both Soviet and post-Soviet by nature; federal business groups were virtually non-existent. In the 1990s, medium-sized regional business became more active in regional elections. Its political activity entailed elite rotation on regional and municipal levels.

The mayoral office was often seen as a starting point for regional businessman. The most interesting case was that of local businessman Yuri Trutnev who was elected mayor of Perm in 1996 and governor of Perm oblast in 2000. From the beginning, regional business seemed to be more

active in municipal elections because it was easier to win such elections compared with the resource-exhausting gubernatorial elections. But regional business demonstrated rising interest in gubernatorial elections, though real success came in only a small number of cases. The best examples of such success were the victories of Sergei Dar’kin in Primorskii krai in 2001 and Mikhail Kuznetsov in Pskov oblast in 2004.

The direct influence of big Russian business on regional power followed the rise of integrated business groups.³ This happened in the middle and second half of the 1990s. Big business in Russia is of Moscow origin, but it exploits regional resources. It started to look closely at the regions, and therefore at the regional authorities, as it formed its regional networks. Such networks came into being in the first Yeltsin term (1991–96). Initially integrated business groups paid little attention to their relations with the regional authorities. They followed the “colonial model”, regarding the regions as conquered prey. Territory was understood as an object of exploitation, with its own interests and the interests of its inhabitants being neglected in favour of those of the exploiters.

In the second Yeltsin term (1996–99), big companies started to appreciate the importance of good and stable relations with regional elites. There were several reasons for this:

1. The process of privatization led to the victory of the core over the periphery. The economic-geographical core companies went to the regions and paid generously for the property formerly privatized by regional businessmen.
2. The political influence of oligarchy increased along with the coming of oligarchic capitalism in Russia in place of state-bureaucratic capitalism.⁴
3. Strong competition on the federal level for the status of Yeltsin’s successor led to a very unstable political situation. Centres of decision-making moved to the regions. And the influence of regional elites rose because of the introduction of gubernatorial elections in 1996.
4. Leading companies started to think about gaining strong positions in strategically important regions. Sometimes this took place in the context of conflicts with local elites resulting from the operation of the colonial model. Big business started to perceive territory as a value and strategic resource that should be kept under control.

As a result, big business began to reject the initial colonial model in favour of the model of strategic partnership with the governors,⁵ also called the clientelistic model. The colonial model meant very little interaction between exploiters of Moscow origin and regional elites. The clientelistic

model proved to be more effective for business groups because it meant friendly relations of a patron–client type between profit-seeking business groups and politically influential regional authorities. It helped to overcome administrative barriers and to reduce political risks. However, after a short while, some companies started to implement a more radical model of power seizure by their representatives in the regions. This meant that the company became not a partner of regional authority, but the regional authority itself. This often happened after conflicts with local elites, reflecting the impossibility of implementing the model of strategic partnership. Both models led to the formation of vertically integrated clienteles, including federal business groups and the regional bureaucracy. The business groups of Potanin, Khodorkovsky, Alekperov, Fridman and Vekselberg were the most active in the regions, introducing the model of strategic partnership and, in some cases, the power seizure model.

The model of strategic partnership under regional mono-centrism

The ideal typical model of close and strategic relations between big business and regional authorities came into being around the turn of the millennium. These were the final years of Yeltsin's term and the beginning of Putin's term. This model was shaped by the mono-polar model of the regional political regime, with the governor as the key political and decision-making centre. Under such circumstances, relations with the governor in a majority of regions could solve almost all problems. This model of the regional political regime had appeared by 1995–96, following the dissolution of the soviets in 1993, which meant the abolition of a political counterbalance to regional executive power.⁶ The mono-polar model lasted through the period 1997–2000, after the introduction of gubernatorial elections.⁷

Central to the mono-polar model, which has also been called regional mono-centrism and is a replica of federal-level political mono-centrism,⁸ was the fact that regional leaders had enormous influence in their regions and felt rather independent in relations with the centre. The system of regional mono-centrism included a huge network of informal relations with the governor at its core. What was important for business was that a strong governor could informally influence federal-dependent structures in the regions, such as law enforcement and tax collection, and thereby gain privileges for business.

As a rule, the governor either subjected regional business to his authority or simply created his own network of loyal business. Only federal business

groups, with their huge financial resources and sometimes their federal political support, could challenge such a system. In the 1990s, regional mono-centrism stimulated a stereotype according to which a dominating company "must" control regional executive power. But such companies and their candidates did not succeed everywhere because of the negative public reaction influenced by regional patriotism and anti-oligarchic feelings; a good instance is the political failures of Lukoil in Nenets autonomous okrug.

The strategy of a big company under regional mono-centrism was to make a governor its client or, in cases of desperate need, to make its person a governor. In the company's strategy, the governor was considered to be the key player. The relationship with him opened access to regional resources and eased the processes of formation, strengthening and expansion of business. Companies also took into consideration the fact that the Russian bureaucracy had many formal and informal opportunities to affect business. There followed the coalescence effect, with big business coalescing with the regional authorities; this may also be described as the creation of symbiotic relations. Such an effect characterized regions rich in resources, especially in oil and metals.

In analyzing the influence of big and middle business, it is very important to define the real meaning of this influence and the motives of businessmen. Two points are relevant. First, such analysis may be based on an understanding of the psychology of the business elite. Personal ambition often motivates a businessman to become a politician (governor, mayor, deputy, etc.). In this case, involvement in political activity is an appropriate response. According to the studies of Russian scholars, there are several explanations as to why businessmen enter political life:

1. Personal problems in business, the sale of property and change of job.
2. Political career becomes just a new step in personal career.
3. Pragmatic goal to enlarge business by acquiring political status which is seen as an opportunity for lobbying in favour of personal business interests.

Second, the political involvement of the business elite should be studied in terms of the effectiveness of political investments. This means that it should be clearly understood what is really useful for business when it gets or controls regional power. Principally this means that big business tries to manage its regional political risks through the control of regional power. The effectiveness of political investments is closely connected with the sharing of regional and municipal powers. The details of these powers

in Russia have been constantly changing. Being a federation, Russia shares powers between federal and regional levels. There is also a sphere of municipal powers. As for the regional authorities, they have their own organizational structure comprising executive and legislative branches, each with their own powers. Finally, the governor's informal influence is very important. The scope and character of informal influence is unique for each region. The effectiveness of political investments will be shaped by these sorts of power configurations.

The rise of oligarchs-turned-governors

Oligarchs-turned-governors were one of the most interesting political phenomena in the early years (2000–2002) of Putin's first term.⁹ The change of president in 2000 was a strong stimulus for Yeltsin's oligarchy to search for alternative or supplementary spheres of political influence. The oligarchies controlling the individual regions tried to stabilize their positions, foreseeing that the new president would bring to power new interest groups. The main and very symbolic event in regional political life under "early Putin" was the election of the former "purse" of Yeltsin's family, Roman Abramovich, to the office of the governor of Chukotka.

The number of direct representatives of Russian big business elected as governors was very small. It was more usual for Russian companies to move their top managers into gubernatorial offices, seeing the particular region as a sort of branch of the company. But such cases were rare and symbolic of the tendency to see the region as part of the company's bailiwick. The most common practice was staff interaction, or horizontal circulation, between the regional administration and the company. Managers of certain companies became deputy-governors and state officials obtained jobs in companies.

The best example of this was the policy of Interros, which helped Norilsk Nickel CEO Aleksandr Khloponin to be elected initially governor of Taimyr autonomous okrug (which is in Krasnoyarsk krai) and then governor of the whole of Krasnoyarsk krai. After Khloponin's election in Krasnoyarsk, another former representative of Norilsk Nickel management, Norilsk mayor Oleg Budargin, became Taimyr governor. Taimyr and Krasnoyarsk krai are actually two principal regions of Interros business interests. Norilsk Nickel could not control the power in both regions because their ruling elites were formed before Interros came to the regions. And Norilsk itself is a distant and isolated town. Geographically speaking, Interros was ill-placed. Failing to cooperate with the ruling elites of both regions, Interros used the model of power seizure with the help of its enormous financial resources, and succeeded.

Following the same pattern, Yukos oil company decided to move its manager, Boris Zolotarev, to the office of governor of Evenkiya autonomous okrug. Evenkiya was considered by Yukos as an important region of future oil exploitation. For its key oil regions, Yukos used a strategy of staff interaction. In Samara oblast, the most evident example was the appointment of Yukos top manager Viktor Kazakov to the vice-governor's office, the second-ranking person in the regional executive power. An example of staff interaction in another direction is in Tomsk oblast, where the former first deputy-governor Vladimir Ponomarenko, having become a client of Yukos, left the regional administration to head the Yukos office in Tomsk.

Towards a new model: tactical partnership in times of limited regional mono-centrism

A change in the dominating model of regional power started in approximately 2002. By this time regional political regimes had undergone serious changes, in particular the replacement of absolute by limited regional mono-centrism. The main reason for this was the new policy of the federal centre which, for the first time and in a tough way, strengthened federal control over the regional level. New state leaders implemented strong bureaucratic control over the regional level in order to strengthen new influential groups from St Petersburg and preserve the country's unity; or at least that was the ideology of the new leaders. As a result, federal-dependent offices (presidential envoys, law-enforcement, tax collection, etc.) were taken out of informal gubernatorial control, where they had been for a long time. The new typical conflict of Putin's time was the conflict between governor and the regional branches of federal offices. All this started in 2000 when Putin came to power, and by 2002 the new situation in relations between big business and the regional authorities had appeared. At the same time the central authorities redistributed powers in favour of the federation. In Russia this could be done within the sphere of concurrent powers partly regulated by federal laws, which in their turn have force over the whole country.

The new model of regional political regime comprises mono-centrism limited by rather strong federal authorities, and the centralization of powers. The gradual dismantling of regional mono-centrism under Putin combined the growing dependence of governors on the federal centre with the minimization of governors' informal influence upon federal structures in the regions. Under such circumstances, "business-power" relations in the regions should be studied with careful attention to the differences between regional political regimes and the economic interest of business elites in the regional and local government. The list of regional and local

powers became very important for each businessman planning his regional expansion. Not all the companies were really interested in patron-client relations with regional and local governments. In the new situation big business cannot rely on its partnership with the governors.

Nevertheless big business retained a number of interests for which gubernatorial powers were relevant in the era of limited regional mono-centrism:

1. Interest in buying regional state property, which in some regions still remains large and attractive, e.g. shares of the biggest enterprises and prospective projects.
2. Interest in regional finances, budget and non-budget funds and regional development programmes. Many companies strive for orders from the regional or municipal account. The choice of partners by the regional authorities often remains non-public and corrupt.
3. Interest in tax breaks and other financial opportunities provided by the regional governments.

Analyzing "business-power" relations, one should pay attention to the fact that, according to the Russian Constitution, the ownership, use and disposal of land, forests, waters and other natural resources are part of the concurrent powers shared by the federal and regional authorities. Regional governments have their own powers in this important sphere. Their decisions can influence companies extracting raw materials. Russian big business has a raw materials bias, and this explains many companies' interest in controlling regional power.

One should also not forget about power sharing among branches and levels of government in the region. A new stage in defining relations between business and local government is tied up with current municipal reform in which a new federal law lists the powers of different local communities – municipal districts, settlements, and urban districts. The configuration of power in the regions (executive power, legislative power, territorial branches of federal executive power, and municipal power of one or two levels) forces companies to decide which regional power-holder and at what level will be really useful in terms of economic interests, i.e. where political investments will really pay. Recently, a need to reduce political risks caused by judicial power, law-enforcement and tax authorities made companies search for direct and informal relations with them. Companies moved their activity to the federal level because territorial branches of federal power strongly depend on their bosses in the centre.

In the time of limited regional mono-centrism, a new model of "business-power" relations in the regions has appeared: that is the model

of tactical *ad hoc* partnership. Such a partnership appears and disappears while companies solve their specific problems with the regional and municipal powers. But companies that are interested in constant influence on the regional authorities still think in terms of strategic partnership.

Big business interests in tactical partnership

Under limited mono-centrism and centralization, big companies need to revise their interests in the regional authorities. A number of interests are relevant in this regard.

The company is interested if the regional government owns valuable property subject to sale

Big business has been looking closely at those regions characterized by state-bureaucratic capitalism where privatization was actually frozen. Such regions are often national republics. They have been characterized by a struggle between local groups close to the regional power on the one hand and Russian big business on the other. Furthermore local clans still hold the power while the federal authorities are not powerful enough to start privatization in the interests of the federal-level groups. There is at least one political reason for this: the Kremlin appreciates the so called "administrative resource" of republican leaders who bring a lot of votes to Putin and United Russia at the national elections. The Kremlin still does not risk undermining mono-centric political regimes in certain republics.

An important example of this is Bashkortostan, with its "tug-of-war" between the regional authorities and federal business groups. The republican president's son, Ural Rakhimov, has become one of the local oligarchs, controlling large parts of the oil industry. Among federal groups, it has been Gazprom¹⁰ that has tried to include Bashkortostan in its sphere of influence. Gazprom manages a huge petrochemical plant, Salavatnefteorgsintez, that is owned by Bashkortostan's government. But it has still failed to incorporate other chemical plants in Bashkortostan into its own holding. Nevertheless "core" business is stronger than the local oligarchs. In 2005, shares of Bashneft oil company and oil refineries (about 20–30 per cent of different enterprises) were sold to AFK Sistema, one of the well-known Moscow groups specializing in telecoms.

The situation in neighbouring Tatarstan, another economically developed republic, is also very interesting. The regional political regime here appears to be the most stable in the whole of Russia, and it has even managed to neutralize the pressure from the federal authorities. The main enterprises are in the hands of the republican authorities or groups close

to them. Federal business groups have little chance to seize this property. Moreover groups of republican origin are strong enough to acquire federal status and buy property in other regions. So the biggest regional groups (like Tatneft, the republican-owned oil company) turn into federal groups. And the regional economy in Tatarstan remains closed to big business of Moscow or St Petersburg origin.

But most regions in 2005 had little state property and it was not attractive to big business. A good example is Irkutsk oblast where the regional authorities try to sell their small shares in the huge and prospective gas field of Kovykta to Gazprom. But Gazprom refused to buy these shares because it wants full control, and regional shares do not mean a thing from its point of view.

The company uses regional powers in its commercial interests

A more flexible regional tax regime could be introduced in the interests of certain companies or to make the region appear more attractive to potential investors. One form of this was the development of the region as an internal offshore zone. Some big companies have used regions to minimize their tax payments. This helped to create relations between big business and a number of underdeveloped regions where the regional authorities wanted badly any sort of cooperation with leading Russian business groups. Big business was particularly interested in regional power to reduce or waive regional rates of profit tax (in Russia, the regional rate of this tax is much higher than the federal one).

In some cases companies formed political alliances with long-acting regional leaders. The best example was relations between Yukos and the small republic of Mordoviya (the republican leader Nikolai Merkuskin represents the former Soviet nomenklatura). Regional authorities gave Yukos' trading companies extensive tax breaks. Yukos also began to use tax breaks in Evenkiya where, as shown above, the company helped its own manager Zolotarev to be elected to the governor's office. Another example is Kalmykiya, another poor national republic. The difference is that the nomenklatura in Mordoviya stayed in power while the leader of Kalmykiya was a rather young businessman. And Mordoviya became a client of one business group while Kalmykiya worked with many of them. There is one unique case when a company's owner and the governor is the same person, that of Chukotka. It was the use of the region as an off-shore zone that was the main reason why Abramovich became its governor.

But this practice of becoming an internal offshore zone provoked a tough reaction by federal authorities in the 2000s. The reaction was even tougher because the federal budget had to subsidize these offshore regions. Such

regions had shadow "business-power" relations while the regional budget was empty because of the tax breaks; for example in Kalmykiya in 2003, 85 per cent of collected taxes went to the federal budget.

Another means of making the region more attractive to outside investors was to have flexible tax policies. This was a less notorious practice aimed at reviving the industrial sector, and is commonly described as an improvement of the attractiveness of regional investments.¹¹ Such regions combined some tax breaks with measures aimed at fighting red tape. The classic example was Novgorod oblast, which was poor in terms of natural resources. Such regions had fewer shadow relations with business groups; their approach seemed to be more transparent, but the number of investors was rather large. But such regions attracted small and medium-sized businesses rather than the oligarchs.¹²

Another way of increasing a region's attractiveness is through the creation of special economic zones. This was introduced by federal laws in Kaliningrad oblast in 1996 and in the city of Magadan in 1999. But again these laws did not attract big business because it was interested either in raw materials producing regions or underdeveloped internal off-shores. Special economic zones, which favoured cheap imports because of easier customs rules, benefited local trading business and led to its symbiosis with the authorities.

After the transitional years of 2000–2002, the pendulum swung back to the opposite side. The federal authorities do not let their regional counterparts pursue their own, more flexible economic policies. The unification of regional political and economic regimes became a part of the ideology officially aimed at strengthening the country's unity. This ideology had its interpretation in fiscal policy seeking to fill the budget by all means and increasing tax revenues; at the same time financial stimuli for the new projects are underestimated. From 1 January 2004, internal offshore zones became impossible, with the regional rate of profit tax able to be reduced by no more than 4 per cent with the whole regional rate now at 17.5 per cent. As a whole, attractive regions started losing their attractiveness. Flexible economic policies could be qualified by the federal authorities as exceeding or even misusing regional powers. Federal tax authorities do not care about tax breaks given by governors. The very interesting example was a criminal investigation against Yaroslavl governor Anatolii Lisitsyn. This investigation examined the governor's decisions, which had previously been understood in terms of investments' attractiveness. And Yaroslavl oblast was considered to be one of the most attractive regions (see, for example, the well-regarded regional ratings of the journal *Ekspert*). The Lisitsyn case looked much the same as the Yukos case because one of the

best-ruled regions became a victim, and that made the rest more confident. Consequentially regional economic policies became very much the same.

A simpler scenario resulted from this situation. Companies are interested in regions which have needed economic resources, on the condition that political risks in these regions are not extreme, as they are in the North Caucasus for example. There are a few cases of serious tax breaks. Amounts of saved money are not as big as compared with former internal offshores. For example, Moscow oblast attracts huge investments without any special tax breaks. The reason is simple: this region has a very good location and cheaper land (in comparison with Moscow city). Moscow oblast does have business groups close to the regional authorities, but they are rather small and do not dominate in the region. The regional authorities prefer good relations with all investors. Promises to provide tax breaks are made only in cases of really strong interregional competition; for example, Moscow oblast is ready to give tax breaks to automobile plants because it wants to attract Volkswagen.

But in 2005 a new story began; the pendulum moved slightly back towards more decentralization. Some powers again went to the regions according to a new law, with federally approved opportunities for regional tax breaks becoming a bit more apparent. Economically strong Perm krai has been reducing its profit tax rate by the maximum four per cent possible for all its taxpayers, including branches of Lukoil. For the first time in history, the Russian parliament adopted a law on special economic zones (SEZ). But these zones cannot coincide with regions and localities. And big business in Russia is not very interested in the sort of innovative industrial production the SEZs are meant to attract. Probably only Kaliningrad oblast, as the one and only region-made-SEZ, will become a good example of "business-power" partnership after the new federal law on this region has been adopted.

In conclusion, one can say that the main story during this period has been the coalescence of big business and ruling elites of underdeveloped regions which have used their powers to help companies to minimize tax payments. Now this story is almost over. But the pendulum in centre-region relations is ever moving, and new developments continue to occur.

Licensing the extraction of raw materials

It is common knowledge that the Russian economy depends on raw materials. This gives increased importance to bureaucratic procedures such as the licensing of mining operations. Up to 2005 Russia used the so-called "rule of two keys". According to this rule, a licence came into force after being approved by both the federal government and the regional administration. Under Yeltsin, many decisions were actually made at the

regional level and were only approved by the federal authorities. Towards the middle and the end of the 1990s, the regional authorities actively handed out small deposits of oil and gas both to friendly big companies and to new small companies where regional government officials had their shares. Such practices were common in the Yamalo-Nenets and Nenets autonomous okrugs, and in Komi Republic.

On the one hand, this resulted in establishing new oil and gas companies controlled by the regional authorities or their business allies. A good example is the gas company Novatek, which is the second-ranking company in Russia in terms of specializing in natural gas exploration. This company appeared in Yamalo-Nenets autonomous okrug under the auspices of vice-governor Iosif Levinzon, former head of Purneftgazgeologiya, a company specializing in geological surveys and holding licences for the survey and pilot extraction of mineral deposits. But on the other hand, close relations between regional authorities and big companies took place in the prospective oil regions where big companies with the help of the regional authorities got licences for the new oilfields. Evenkiya autonomous okrug was a good example of this; Yukos was going to make Evenkiya a new oil region and started with an electoral victory. However, if agreements failed, the regional authorities and big company could become involved in a serious conflict. In Nenets autonomous okrug, governor Vladimir Butov opposed Lukoil expansion and distributed oil deposits among other companies, including Nenets Oil Company established by the regional authorities. Lukoil tried twice (in 2001 and 2005) to have its candidate Shmakov elected governor, but failed. The conflict between Butov and Lukoil was an important reason for the federal campaign for the abolition of the "rule of two keys".

Amendments to the federal law adopted in 2005 drastically changed this situation. Regional authorities now held powers only for so-called widespread minerals, like sand, road-metal, gravel etc. In the case of valuable minerals, the decision-making power moved to Moscow. Accordingly, this big business interest in the regional powers has decreased, while regions fight hard to regain their previous powers.

Other opportunities

The new stage of land reform that started with the implementation of the new Land Code gave rise to business interest in the regional powers selling or leasing of land. Municipal authorities also have powers in this field. Business groups could investigate agreements with both regional and municipal authorities, but only after they have established the real distribution of power in this regard in the particular region in which they have an interest.

But a strategic partnership is likely to develop on the municipal level when even a small enterprise can be of key importance for the local budget. As for the regional level, it is a more routine process, and political alliance or conflict can come in case of a really big deal. The new and important process is the development of relations between agro-holdings (now on the rise in Russia) and the regional authorities in Southern regions. One example is the close relations between Belgorod oblast administration and the agro-holding Stoylenskaya Niva created under its auspices, but which in turn is also a part of a federal business group. And there is a strong conflict between Belgorod governor and an unwanted newcomer – the Moscow group Inteko owned by mayor Luzhkov's wife. Similar processes will start after the adoption of a new Forest Code.

Companies revise their regional strategies

Contemporary trends in “business–power” relations are evidence of a change in the dominating model. The former model of regional mono-centrism and intensive patron–client relations changed in a number of ways under Putin. First, mono-centrism became much more relative because the system of informal gubernatorial patronage over federal structures in the regions has been partly dismantled. And it is such federal structures that create the most serious risks for companies. However mono-centrism is still real for regional and local government. Financially weak local government still remains under the informal control of the governor, and regional legislative power is still subject to gubernatorial pressure. Close relations with the governor are now useful but not sufficient for doing successful business in the regions.

Secondly, the governors' independence in their economic decisions has been restricted while federal control has been strengthened. The new, rigid, financial policy of the federal government has limited the governors' powers to give tax breaks and other privileges, while the federal centre has changed the law on natural resources so as to redistribute administrative powers to its benefit.

As a result of such changes, big business has been revising its regional strategies, including relations with regional government; the interest in having direct influence is decreasing. Of course, there are still many specific issues requiring agreement between regional government and business structures, but these are issues of strategic importance for regional business. Big federal business can achieve its strategic goals by way of interacting with federal authorities and then agreeing with regional governments on certain details. In the new situation, big business cannot rely entirely on its

partnership with the governors, so it has redistributed its attention in favour of the federal authorities who again have become a more important source of political risks and economic opportunities.

The recent abolition of gubernatorial elections also affected companies' strategies. Now they can not make their people governors through elections, and their ability to change governors has become more limited. In the past, companies could “buy” elections, sometimes either not even asking for Kremlin support or “buying” this support. Now they need to persuade the Kremlin, but the president and his administration want to rule business and not to be ruled by the oligarchs, as used to be the case under Yeltsin. State-bureaucratic tendencies have again become more explicit under Putin in contrast to oligarchic tendencies. As a result, companies prefer to work with the existing regional rulers and not to waste time making the Kremlin appoint their people.

At present, a typical Russian business group uses a revised strategy of regional political risks management based on the following:

1. The use of administrative powers held by the regional or municipal authorities in the company's interests in those cases when the company considers such powers to be really useful.
2. Expectations of new changes in the permanently unstable relations between centre and regions in Russia. Such changes may lead to a new redistribution of powers in the regions' favour. Despite the centralization processes in recent years, Russia has not abandoned the federal model. In 2005, an opposite, small-scale redistribution of power to the regions began.
3. The persistence of the previous mono-centric model, especially in cases when some governors still retain absolute power in their regions (e.g. the republics, Kemerovo oblast etc).
4. Some (but not all) companies consider a favourable social and political environment in the regions of their economic activity to be important. They implement social and charity programs and work on their public image.
5. The basic pattern of Russian politics is patron–client relations. This means that it is better for governors and companies alike to have such relations than not to have them. But too great a dependence on such relations is considered to be risky in the unstable political situation. And such relations do not necessarily have economic benefits for the company.

The rise of oligarchs-turned-governors, which reached its climax in 2002 with Khloponin's election, was followed by their fall. In the beginning of

the 2000s, oligarchs considered the governor's status as a useful supplement to their original status. But when its usefulness decreased, the desire to become governors almost disappeared. The reason is that the governor's status and powers were reconsidered and found to be too small for a real oligarch. This is clearly reflected in 2002 in Lipetsk oblast. The owner of Novolipetsk iron-and-steel plant (NLMK), one of the biggest in Russia, Vladimir Lisin, after long hesitation, refused to take part in the gubernatorial elections. Following his refusal to participate, Lisin's business developed extremely well. If Lisin became a governor, he may not have been able to go on turning NLMK into one of the leading business groups in Russia acting in several important regions. Furthermore the complicated relations between Lisin and governor Oleg Korolev did not affect Lisin's business at all. The governor understood that, at least, cold peace with the main enterprise in his oblast was much better than senseless war.

The intensity of big business' fight for control over regional authorities is also decreasing. Economic motives for such a fight still remain, but they are weaker. For example contradictions between Gazprom and Yamalo-Nenets governor Yurii Neyelov did not lead to a change of governor when Neyelov's term was over in 2005. At first, the media said that the main competitor was Aleksandr Ananekov, Gazprom's deputy CEO and former head of one of the biggest of Gazprom's branches in Yamalo-Nenets AO. Then Pavel Zavalnii, the CEO of Gazprom's transport branch Tyumentransgaz, was identified. But Zavalnii had no influence in Yamalo-Nenets AO. Finally neither Ananekov nor Zavalnii were included in the official list of candidates. Neyelov's only competitor, the deputy governor of Tyumen oblast Vladimir Yakushev, was purely formal and had no direct relations with Gazprom. Neyelov was appointed. Big business more often now thinks that it is big enough and the regional authorities are not so big, so they see no reason to waste resources in an attempt to subject the regional authorities. This passive strategy is the direct opposite to the former strategy of power seizure.

But the interest of medium-sized business in the regional and municipal authorities remains. In this case, decisions by friendly authorities can lead to the company's rapid development while conflict may cause its destruction. As a rule, the construction and food industries and the retail sector are the business sectors most affected by this. Such businesses usually succeed due to good relations with the authorities, and not necessarily regional ones. On the municipal level retail business and the authorities work in close contact because many shops and markets are still in municipal property or because municipal authorities control the distribution of realty and land.

As for the regional level, small-scale economic decisions can have great significance for them, and this is where symbiotic relations often develop. A most interesting example is the owner of a fishing company in the Russian Far East, Oleg Kozhemyako. In 2004 he took part in the gubernatorial elections in Kamchatka oblast and came third. In 2005 he was appointed governor in Koryak AO, formally a part of Kamchatka oblast. Gubernatorial powers, such as the distribution of fishing quotas, could help him to expand his business. But after the abolition of gubernatorial elections, regional businessmen have preferred to take part in mayoral elections. It is almost impossible for them to win the gubernatorial nomination unless they are among the leading politicians in their regions or in Moscow. In 2005, businessmen became mayors of several important cities, including Chelyabinsk (Mikhail Yurevich, food industry) and Arkhangelsk (Aleksandr Donskoi, retail business).

The revision of regional strategies means that the vertical of power is characterized by the following in "business-power" relations:

1. Big business gives priority to its relations with the central authorities. Regional interaction is to specify details and to form a more favourable business environment.
2. Medium-sized business solves its problems mainly on regional and municipal levels and has a real economic interest in controlling power at the municipal level.
3. The specific process is the political legalization of the regional business associated with the criminal world. Its political legalization follows economic legalization, which is the moving of business from shadow to legal activities. It is crucially important for criminal-based business to reduce political risks. It is most evident at the municipal level because such business is often present in spheres dependent on the municipal authorities, such as trading.

Analysis of the direct influence of big business on regional power enables us to propose a typology of contemporary situations:¹³

1. A real oligarch continues to work as a governor in only one region, Abramovich in Chukotka. But his interest in the governorship has become minimal.
2. In three cases, the top managers of leading Russian companies hold governors' offices, and all of these cases are found in Krasnoyarsk region: Khloponin in Krasnoyarsk krai, Budargin in Taimyr AO, and Zolotarev in Evenkiya AO. But with the abolition of autonomous okrugs in 2007, Krasnoyarsk krai will become one region.

3. The rest are mainly cases of more or less tense connections between the regional authorities and business structures. Governors usually represent either the former nomenklatura adapted to reforms or a new class of regional bureaucracy formed in post-Soviet governments (so-called "post-Soviet clerks"). A good example of this is Vologda oblast where governor Vyacheslav Pozgalev is closely connected with the iron-and-steel group Severstal.
4. Finally, there is a specific model in regions where very strong and long-serving governors have created strong and self-sufficient systems of loyal business (Moscow, Tatarstan, Bashkortostan).

The model of relations when the governor is an explicit lobbyist for a particular business group is very rare. When such governors were elected, this situation could lead to support of the opposition candidate by other businesses. If such a governor is appointed, there is the possibility of a struggle between unsatisfied business groups in structures influencing the nomination. In any case, the federal centre tends to appoint governors who are loyal to the Kremlin rather than to some oligarch. This is why an obvious connection exists between a governor and a certain company only in the simplest regions where one group or one businessman controls almost the whole economy. In other cases, governors prefer manoeuvring by making coalitions with business groups of different origins and territorial levels.

Finally it is important to define the main political consequences caused by the change of "business-power" relations under Putin. The vertical of power means that big business coordinates its regional activities at the federal level. This model characterizes both business activities (privatization, distribution of raw materials deposits etc) and political decision-making. As for politics, earlier the federal centre wanted companies to coordinate their decisions to support candidates for governors. Following the abolition of gubernatorial elections, the Kremlin must choose between two strategies – co-ordination of the candidacy with the company dominating in the region, or appointment of a neutral governor loyal to the centre only.

The interests of regional political elites

Governors originating from the big companies now prefer to demonstrate flexible policies with regard to business relations. Since the Yukos case, they have been afraid of losing office if their business group falls victim to a political campaign. Their patrons in the business group agree with these policies for the same reason. The Kremlin does not want to appoint the candidates of big companies for three reasons: first, because

the Russian president wants to avoid any issue of double loyalty; second, the president does not want the appointment procedure to be associated with the selling of regional offices; and third, the president tries to avoid possible political instability if the appointment of some company's man provokes a strong negative reaction by competing companies.

From this point of view it is important to analyze the changing behaviour of Zolotarev and Khloponin. Zolotarev faced harsh reality when his patrons lost their political game. After that, Zolotarev became fully loyal to the federal authorities and agreed to unite Evenkiya AO with Krasnoyarsk krai. As for the economy, he openly supported proposed change of the owner of VSNK, the local oil company owned by Yukos.

Khloponin came to power in 2002 when "business-power" relations started to change. He has always been a flexible governor, loyal to the Kremlin. Immediately after Putin abolished gubernatorial elections, Khloponin started the unification of Krasnoyarsk krai with its autonomous okrugs, an evident sign of political loyalty praised by the Kremlin. In his business relations, Khloponin signed agreements with all business groups represented in the krai, including even that of Oleg Deripaska who fought against Khloponin at the time of elections. This improves his chances of being appointed in 2007. And Interros has no intentions to change Khloponin despite his tactical double-dealing.

Governors usually prefer to avoid relations that are too close with the one and only company in the region. The federal authorities left them little room to manoeuvre, but governors seek to enlarge it by means of business relations. But they do not want to be somebody's puppet. They prefer more serious roles, including:

- A broker dealing with the regional resources.
- A mediator between different business groups or between business and different power structures in the region.
- A referee who sometimes stimulates the competition in his region to make his role more important.

Complete political loyalty is the only possible strategy left for governors if they are to prevent the federal authorities from taking part in regional affairs; this is the way to minimize federal pressure. It helps to save assets and to get larger manoeuvre space in relations with business groups. The very experienced governor and politician Aman Tuleyev in Kemerovo oblast supports Putin whole heartedly. In his region he is the extremely influential leader and all the business groups prefer to start their activity in this rich industrial region by reaching agreement with its governor. And

Kemerovo oblast is also a case of a region where the governor still possesses informal ways to pressurize disloyal companies, even making them increase workers' salaries.

The interests of the federal ruling elites

With the appointment of governors, the Kremlin has chosen a new strategic relationship with the regional elites. Incumbent governors get the desired appointments on condition that they are loyal to Putin. The political game has become more important than the struggle for property. The Kremlin wants to be the one and only patron for governor. In appointing governors, the president has usually supported incumbents regardless of their different origins and business relations. Putin has accepted the situation when a governor closely associated with one or another business group demonstrates full loyalty to the president, as though saying that Putin is the only patron and there is no sign of double loyalty. And Putin is not going to change governors just because a particular company wants it. The most important thing for the Kremlin is the governors' ability to organize federal elections in its interest and not to play the double loyalty game. That is why Neyelov was appointed in Yamalo-Nenets autonomous okrug. He has ruled his region for more than ten years; and soon after his appointment, United Russia got more than 60 per cent of votes at the regional elections. Neyelov's latent conflict with Gazprom was not sufficient reason to change him.

The Kremlin sometimes seeks to play an active role in the regions. One form of this has been to reformulate the coalescence of business and power in terms of the notion of social responsibility as the federal authorities seek to get businessmen to invest in some remote and backward regions. A good example of this occurred in Chukotka in 2005 where the governor Abramovich and his firms pay their taxes; these constitute a main staple of the regional economy. Abramovich did not need to be a governor anymore, but the Kremlin convinced him to stay. Another form of involvement is to act as a mediator in relations between the regional authorities and investors. It organizes their dialogue in order to help the most loyal governors. Presidential envoys in federal districts are prominent in this process. For example the presidential envoy Georgii Poltavchenko helped backward Tambov oblast to become the host of an annual investment forum.

But if the president decides to change a governor, the new regional leader often comes from the business elite. Among such appointees, Kozhemyako (Koryak AO) and Valerii Kokov (Kabardino-Balkariya) can really gain economically from their new status. But appointments in Saratov

(Pavel Ipatov, CEO of the nuclear power station), Tula (Vyacheslav Dudka, deputy CEO of the defence industrial plant) and Irkutsk (Aleksandr Tishanin, CEO of the state railway company's branch) do not seem to be profitable for the governors' enterprises because these enterprises are federal and cannot gain due to their governors' actions. The reasons for their appointments were political: appointees were considered to be politically neutral in the context of a power struggle. But their appointments may also be seen in terms of elite analysis. We can take businessmen not as clients and agents, but as skillful managers just moving to a new job. Despite the ever-changing relations between big business and the authorities at all levels, the business elites have become a very important source of the regional ruling elite. Many of them are elected mayors or appointed governors and deputy-governors. And this fact marks the elite transformation going on in Russia.

Conclusion

Relations between the regional authorities and business elites in Russia depend on several variables. These relations change along with the changes in the existing rules of election or nomination of regional or municipal heads. The gubernatorial elections, for example, gave the big business tycoons more opportunities to move their people to the highest regional offices. When governors became appointed by president big business started lobby games but did not have much success. So the relations between region-bound business groups and the federal authorities become very important. The ideal situation for a business group is to agree with the Kremlin on the candidate. But the real influence of business groups in the Kremlin has been proved to look very different. In the meantime the powers of the regional or municipal head, both formal and informal (the latter being very different from region to region) define the "rational choice" of certain business groups to fight or not to fight for the control over certain offices in the region. One more "rational" impulse for business elites to fight is the regional property (or another state-controlled economic resource) subject to privatization or leasing. The joint business interests of regional state or municipal officials and business groups' owners or managers is an incentive for the clientele to retain power by all means. And finally the overall development of the national political process in terms of "business-power" relations defines in what form and at what distance the authorities and the business groups interact on political issues.

Notes

- 1 A.V. Makarkin, *Politiko-ekonomicheskie klany sovremennoi Rossii* (Moscow: Centre for political technologies, 2003).
- 2 A.K. Magomedov, "Korporatsiya Kalmykiya – vyrazhenie ideologii pravayashei elity", *Mirovaya ekonomika i mezhdunarodnye otnosheniya* 12, 1995, pp. 106–13.
- 3 This term was introduced by Pappe. Y.S. Pappe, *Oligarkhi: ekonomicheskaya khronika 1992–2000* (Moscow: State University – Higher School for Economics, 2000).
- 4 Pappe, *Oligarkhi*.
- 5 B.I. Makarenko and R.F. Turovsky (eds), *Politika v regionakh: gubernatory i gruppy vliyaniya* (Moscow: Centre for Political Technologies, 2002).
- 6 V.A. Gel'man, "Regional'nie rezhimy: zaversheniye transformatsii", *Svobodnaya mysl'* 9, 1996, pp. 13–21.
- 7 R.F. Turovsky, "Gubernatory i oligarkhi: istoriya vzaimootnoshenii", *Politiya*, 5, 2001, pp. 120–39.
- 8 A.Y. Zudin, "Rezhim V. Putina: kontury novoi politicheskoi sistemy", *Obshchestvennyie nauki i sovremennost'*, 2, 2003, pp. 67–83.
- 9 Turovsky, "Gubernatory".
- 10 Although a state company, Gazprom is controlled by one of the influence groups close to Putin.
- 11 A.M. Lavrov and V.Y. Shuvalov *et al.* (eds), *Predprinimatel'skii klimat regionov Rossii* (Moscow: Nachala-Press, 1997).
- 12 V.A. Mau and O.V. Kuznetsova (eds), *Investitsionnaya privlekatel'nost' regionov: prichiny razlichii i ekonomicheskaya politika gosudarstva* (Moscow: The Institute for the Economy in Transition, 2002).
- 13 Turovsky, "Gubernatory"; and N.V. Zubarevich, "Prishel, uvidel, pobedil? (krupnii biznes i regional'naya vlast'", *Pro et contra*, 7, 1, 2002, pp. 107–19.

6 Economic Actors in Russian Regional Politics: The Example of the Oil Industry¹

Julia Kuszniir

In his analysis of the hindrances to reform of the economic policy of post-Soviet countries, Joel Hellman² begins with the assertion that resistance to further economic reforms did not come from those who stood to lose from such reforms, for example the unemployed or pensioners, but rather from those who first profited from reform, such as financial speculators. They benefited above all from the distortion of competition which characterized the early period of economic reform. During the process of privatization they could win preferential control of enterprises. Banks made considerable profits through speculative deals in unregulated financial markets. Local bureaucracies protected firms from competition in order to receive a share of the earnings from these monopolies. Therefore, according to Hellman, after the first phase of economic reform, the decisive conflict of interests with regards to the continuation of reform did not take place between political decision-makers and the classical losers from reforms, but rather between political decision-makers and those who had benefited from the initial period of reform. In Hellman's opinion the result of this conflict largely determines further economic development.

In Russia one group of beneficiaries from this distorted and unfinished reform is made up of the so-called "oligarchs": large-scale entrepreneurs who through financial speculation and successful participation in privatization auctions created industrial holding companies – the so-called FIGs (Financial-Industrial Groups). The small group of successful oligarchs cultivated close relations with President Boris Yeltsin and with the Russian government. In this way, they achieved considerable influence on Russian politics in the mid-1990s.³ When he took over the office of president in the year 2000, Vladimir Putin set out with the declared aim of reducing the political influence of the oligarchs. In the following years, entrepreneurs who represented a political threat to Putin were systematically placed