

OIL AND POLITICS IN RUSSIA

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“The economic system of Russia has undergone such rapid changes that it is impossible to obtain a precise and accurate account of it.... Almost everything one can say about the country is true and false at the same time.”

John Maynard Keynes, 1925

Introduction

Based on global evidence, oil is believed to be bad for democracy and bad for sustained economic growth. Boix argues that there are zero examples of a successful transition to democracy in a country where oil generates more than one third of its export earnings, which sounds like a death sentence for Russian democracy.¹ Halperin et al contend that only eight countries in the past 20 years have enjoyed sustained growth under authoritarianism, while 60 authoritarian regimes saw sub-par growth.²

Indeed, casual scrutiny of the rise, fall and rise of the world oil price (Figure One) appears to show a striking correlation with the rise, fall and rise of authoritarianism in Russia (Figure Two.). However, this paper will adopt a contrarian position and challenge the idea that there is a single explanation that can explain Russia's political evolution. It also suggests ways in which Russia may yet manage to beat the "resource curse." It begins with a discussion of the way the resource curse has been used to explain Russia's political evolution, and a review of some comparable cases. The following two sections summarize political and economic developments in Russia 1990-2006. The next part argues that there are some important sources of pluralism in Russia's political economy despite the prominent role of resource extraction. The following sections examine some specific aspects of government policy.

Oil and gas played an important role in the pre-1991 Soviet economy. The newly discovered Tyumen fields sucked up one third of new capital investment since the 1960s, and the Soviet economy became the most energy-intensive in the world. The eightfold increase of oil prices in the 1970s provided a boost to the Soviet economy, and encouraged Moscow to build pipelines to export natural gas to Western Europe in the early 1980s. So far so good for the resource curse argument – the hydrocarbons helped perpetuate Soviet authoritarianism. However, prices dipped in the early-1980s, leading some to argue that the world oil price is the "smoking gun" that killed

¹ Carles Boix, *Democracy and Redistribution* (Cambridge University Press, 2004), p. 85. On Russia and the resource curse, see Younkyoo Kim, *The Resource Curse in a Post-Communist Regime: Russia in Comparative Perspective* (Ashgate, 2003). There is also a new collection by Michael Ellman (ed.), *Russia's Oil and Natural Gas. Bonanza or Curse?* (Anthem Press, 2006).

² Morton H. Halperin., Joseph T. Siegle, and Michael M. Weinstein, *The Democracy Advantage: How Democracies Promote Prosperity and Peace*, (Routledge, 2005.), p. 19. The eight are Bhutan, China, Egypt, South Korea, Singapore, Taiwan, Tunisia and Vietnam.

off the Soviet system.³ (See Figure One) If this were true, it could be seen as a partial challenge to the resource curse argument – in that vulnerability to fluctuations in the world oil price triggered the downfall of an authoritarian regime and at least increased the *possibility* of a democratic transition. (A hardcore resource curse advocate would respond by arguing that the resulting democratization was doomed to fail, once the oil price went back up again.)

In any event, the argument that oil price fluctuations killed the Soviet Union does not withstand scrutiny. No-one has yet managed to produce the relevant numbers showing exactly what the Soviet state was earning from oil and gas in the 1980s. (This is mainly because Soviet national accounting was opaque and secretive.) My hunch is that the slump in oil and gas export revenues was fairly modest compared to other gaps that opened up in the budget (the decline in alcohol tax after 1985, the costs of Chernobyl after 1986, the collapse of the taxation system after 1987). Moreover Gorbachev's political decision to push ahead with reforms does not seem at all connected to worries over oil revenues. In the late 1980s, as government spending ran ahead of revenues, Gorbachev plugged the gap by borrowing \$56 billion from Western nations eager to see his new foreign policy continue.

Russia has experienced some sharp regime shifts in the past 20 years, from totalitarianism to democracy and back to authoritarianism. Defenders of the resource curse (RC) model could argue that Russia's experiment with democratization in the 1990s was a mere blip in the historical record, an irrelevancy that was doomed to fail given Russia's deep structural dependency on mineral exports. According to this view, the RC cannot be expected to explain fluctuations in a political regime within a short period (say 20 years). But Russia's democratic experiments seemed real enough at the time, and it would be over-deterministic to argue that that period of historical turbulence had only one possible outcome.

A more nuanced defense of RC would be to try to argue that the fluctuations in Russia's resource earnings help explain the rise and fall of democratic hopes over the past two decades. It's true that the oil price fell from a peak in 1985 to a trough in 1997 – precisely the years of Russia's democratic experiment. But Russia's earnings from mineral exports substantially *increased* from 1992-96, due to a diversion of oil and metals from value-subtracting domestic manufacturers to

³ Stephen Kotkin, *Armageddon Averted. The Soviet Collapse, 1970-2000* (Oxford University Press, 2003); Egor Gaidar, *Dolgoe vremya. Rossiya v mire*. (Moscow: Delo 2005). According to Gaidar - p. 342 tables 8.24-26 - the world oil price went from \$7 barrel in 1971 to \$66 1980, then \$39 in 1985, and \$20 in 1988. while natural gas went from \$197/1000 cm in 1985 to \$90 in 1990.

export markets. The benefits from this export boom flowed into the coffers of the new private owners of the oil and metals industry, and the impact of the low oil price was offset by the low price they had paid for their assets and the low levels of taxation to which they were subject.

Russia has a distinctive political history, lurching from the most authoritarian state and largest empire in Europe prior to 1914 to the world's first proletarian dictatorship post-1917. The "Russian curse" predated the "resource curse." So the question is to what extent oil/gas dependency has reinforced Russia's preexisting political distinctiveness as an authoritarian state, preventing it from becoming a "normal" country. Or perhaps to the contrary the RC may have worked to neutralize some aspects of Russia's unique historical burden.

The most recent treatment of this issue is to be found in Stephen Fish's 2005 book, *Democracy Derailed in Russia*.⁴ Fish concludes from cross-national analysis that Russian democracy is blighted by a variant of the resource curse. He is unable to find clear evidence that it works through the three vectors identified by Michael Ross – the rentier effect, the repression effect and modernization.⁵ Russia was already a modern society, so the resource curse did not prevent modernization. Evidence for a rentier state buying off of social discontent is not there (Russian stat spending as a share of GDP is low by international standards). Russia does have above average levels of military spending, but Fish did not find this factor particularly decisive. Instead Fish traces the causal chain through the impact of oil & gas on corruption and economic liberalization – boosting the former and distorting the latter. There were insufficient funds to "to play the role of the Kuwaiti rulers, showering the people with services without taxing them. But [in Russia] there is more than enough money to corrupt the state apparatus."⁶

For this reader, Fish passes too quickly over the specificities of Russia's political history. Factors such as Soviet totalitarianism and the imperial legacy are not mere historical abstractions: they are vital components in any account of Russian politics over the past decade. By the late 1990s, Russia was effectively ruled by a group of oligarchs who had acquired incredible wealth through the privatization process and were then in the process of transforming their economic power into

⁴ Stephen Fish, *Democracy Derailed in Russia* (Cambridge University Press, 2005), ch. 5.

⁵ Michael L. Ross, "Does oil hinder democracy?," *World Politics*, vol. 53, no. 3, 2001, pp. 325-361; Michael L. Ross, "The political economy of the resource curse," *World Politics*, vol. 51, no.1, January 1999, pp. 297-322.

⁶ Fish, p. 134.

control over the political system.⁷ They failed in this endeavor due to the rise to the presidency of Vladimir Putin. Two elements were key to Putin's rise. First, the war in Chechnya – a specific legacy of empire – was seen as a major threat by the Russian state and the Russian people. Second, Putin's background as a KGB veteran – another Soviet legacy – gave him the public image of being a tough defender of Russia's national interests, not only against Chechen terrorists but also against corrupt oligarchs. In addition it gave Putin the political skills and network of trusted ex-KGB cadres with which to staff the presidential administration and turn it into an effective tool for the recentralization of state power.

The underlying problem in establishing the causal role of hydrocarbons in the failure of democracy in Russia is that the outcome is *over-determined*. Russia already had multiple factors working against its democratic experiment: the lack of historical experience with democracy; the legacy of 75 years of Soviet totalitarianism; post-imperial ethnic heterogeneity; rising social inequality; and even perhaps its Orthodox tradition. Figuring out where oil and gas fits into this list of possible causes is no easy task.

Inside Russia, the RC approach has many adherents. This is unusual, since Russian commentators are generally reluctant to draw comparisons between Russia and other countries. The typical position is to insist that Russia has a unique history and political culture, and cannot be measured by the criteria used for other societies. Russian economists for example seem reluctant to try to compare the transition in Russia with that in China. However, the RC argument is a partial exception to this rule. Russians across the political spectrum have readily embraced the idea of the RC, bemoaning Russia's dependence on oil and gas exports. Already in the 1990s Communists and nationalists were complaining about the "Kuwaitization" of Russia.⁸ They wanted Russia to hang on to its role as an exporter of advanced technology industrial manufactured goods, such as weapons, ships, aircraft and nuclear power. They did not acknowledge that Russia's capacity to sell such items had been closely tied to its military superpower role and to the network of allies and client states who bought these technologies at low and subsidized prices. More recently liberals such as Boris Nemtsov, Grigorii Yavlinski and

⁷ The word "oligarch" was first used in 1997 by Aleksandr Privalov of *Ekspert* magazine, who started a regular poll of elites, publishing rankings of who were seen as the most influential political and business figures. Olga Romanova, "Novosti," *Vedomosti*, 29 January 2002.

⁸ Mikhail Delyagin, "Petrodollars do not work for the Russian economy," *Vremya MN*, 28 July 2001.

Aleksandr Illarionov have blamed the rising world oil price for the death of democracy in Russia and the stifling of its manufacturing sector.⁹

⁹ Nemtsov is a former deputy prime minister (1997-98) and head of the Union of Right Forces, Illarionov was economic advisor to President Putin 2000-05. Yabloko party leader Yavlinski said in a recent interview: that Russia is a case of “peripheral capitalism.” “We are increasingly becoming a raw materials appendage, to the East as well as to the West.” Mikhail Vorobiev, “Restaurants, taxis, girls,” *Vremya Novostei*, 7 June 2006. See also Andrei Illarionov, “A long-term project for Russia,” *Russia in Global Affairs*, no 13, July 2005.

Apples and oranges

The resource curse literature recognizes that oil dependency is compatible with a broad range of political systems: from traditional monarchies to theocracies to revolutionary dictatorships. But oil seems inimical to the emergence of stable democracies. Even if this is true, several questions follow for the observer interested in the political evolution of specific countries. First, what type of non-democratic regime can one expect in country X? Second, what are the chances that country X can escape the resource curse? The laws of politics, unlike the laws of physics, do allow exceptions. India has no right to be a democracy with a \$700 per capita GDP – but it is.

Some countries have managed to escape the RC, the most often cited examples being Norway, Botswana and Trinidad & Tobago.¹⁰ Could Russia join this very short list of outliers? Those three countries have one thing in common – a very small population (4.6 million, 1.8 million and 1.3 million respectively). Hence they have a numerically small political and economic elite, and that presumably makes it easier for the elite to forge a *modus vivendi* than would be the case for a more numerous and diverse elite in a larger country. The disparity in scale between these three countries and Russia, with its population of 143 million spread across one seventh of the world's surface, makes it very hard to imagine that the same factors that enabled them to dodge the curse will apply to Russia.

Norway is ethnically and socially homogeneous, and long prior to the discovery of oil there was a strong tradition of local democracy (though Norway only won its independence from Sweden in 1905). There was also a tradition of sophisticated macroeconomic interventions by the government – which may help explain the success of the Petroleum Fund, created in 1990 to sterilize oil & gas revenues and now worth \$200 billion (70% of GDP).¹¹ Botswana and Trinidad were both former British colonies: a historical legacy that is more conducive to democracy than other empires, but not a guarantee of success. Botswana claims to be ethnically homogenous, with 79% of the population belonging to the Tswana people – although that group in turn divides into eight clans. Elites drawing their wealth from cattle and diamonds managed to maintain a political consensus: political rights and civil liberties are respected, though there has been no

¹⁰ Freedom House ranked Botswana partly free in 1972, with a 3 for Political Rights and 4 for Civil Liberties, upgraded to 2/3 free in 1973, 1/2 in 1989, 2/3 in 1993 and 2/2 in 1995. Trinidad was ranked as free 2/3 in 1972 rising to 2/2 in 1973, 1/2 in 1982 and 1/1 in 1987, slipping down to 3/3 partly free in 2001.

¹¹ It was renamed the Government Pension Fund in 2005. Norway has had three Nobel prize winners in economics, by far the highest per capita rate in the world.

alternation in power, with the ruling Botswana Democratic Party in control since 1965. Trinidad is sharply polarized between roughly equal African and Indian populations, originally mapped onto an urban/rural division of labor. A similar ethnic division led to violent conflict in neighboring Guyana. Sound leadership managed to share the oil & gas revenues between both communities in Trinidad through the 1990s, but disputed elections in 2000-01 and a deadlocked parliament have caused political instability in recent years.

Russia's extensive size and federal structure suggest that the more relevant comparison may be with federal countries with high resource endowment such as Canada or Australia. But they are less than one fifth of the population of the Russian Federation, and have a distinctive history as former settler colonies of the British empire.

Russia's democratic record

Russia's democratic record is rather dismal – but it is less monolithically awful than the “resource curse” literature would suggest; and the events of the past 15 years provide some grounds for optimism that Russia may return to a more democratic system in the near future.

The level of democracy in Russia arguably peaked in 1990-91, the last year of the Soviet Union, when there was a combative press, considerable political mobilization, and elections whose results were not known in advance.¹² Freedom House had ranked the Soviet Union as “unfree,” ranging from a score of 6 for Political Rights (PR) and 6 for Civil Liberties (CL) in 1972 to 7/7, the lowest possible score, in 1984-86. (See Figure Two) In 1990 it was reclassified as “partly free” with a 5/4 rating, rising to 3/3 in 1991. The new Russian Federation that emerged in 1992 was classed “partly free,” with a 3 for PR and 4 for CL from 1993 through 1997. During the years of President Boris Yeltsin (1991-99) elections were regularly held, and though the media were heavily biased in favor of the president, the results generally reflected the will of the voters.¹³ But in 1992-96 politics settled down into an ugly standoff between a reformist president and an opposition-dominated parliament. After 1996 the level of competition steadily eroded from election to election, and Freedom House downgraded Russia to a 4/5 in 1999.

¹² Lilia Shevtsova, *Yeltsin's Russia: Myths and Reality* (Brookings Institution, 1999).

¹³ Richard Rose and Neil Munro, *Elections Without Order: Russia's Challenge to Vladimir Putin* (Cambridge University Press, 2002); Timothy Colton and Michael McFaul, *Transitional Citizens: Voters and What Influences Them in the New Russia* (Harvard University Press, 2000).

The level of democracy has further deteriorated under Vladimir Putin, who was elected president in March 2000.¹⁴ Elections are still held on schedule, but state control over the media (especially TV) and the restrictions on organized political opposition have been stepped up. After the 2003 parliamentary elections Putin established secure control over the legislative branch, with the pro-Kremlin United Russia party winning a two-thirds majority in the State Duma. In 2004 Putin abolished popular elections for regional governors, one of the few remaining elements of electoral contestation (about one third of incumbent governors were losing their re-election bids).

Freedom House graded Russia 5/5 “partly free” from 2000 to 2003, and in 2004 Russia was relegated to the category “unfree”, slipping to a 6 for PR and 5 for CL.¹⁵ These scores put Russia’s political system *below* that of Afghanistan, Bahrain or Burkina Faso: presumably the Freedom House index does not weigh women’s rights very heavily. The Freedom House approach arguably over-states the degree of democratic decline in Russia, presumably with the political goal of persuading President Putin not to further erode democratic procedures. (Its website does describe it as an *advocacy* organization.)

The Russian political system is still far from a personal dictatorship. President Putin (like Yeltsin before him) faces numerous checks on his power. He has to contend with competing groups within the state bureaucracy; and with the several dozen independent-minded wealthy businessmen who controlled about one third of Russia’s economy. He is also constrained by the need to win elections (albeit with the help of fraud); to maintain a loyal majority in parliament; and to avoid popular protest by non-violent means.¹⁶ Personal daily life is quite free, with the compulsory registration system that regulated movement around the country being legally abolished. Opposition newspapers still exist at regional and national level, and there have been significant improvements in the judicial system (such as the introduction of jury trials and cuts in pre-trial detention).

¹⁴ Lilia Shevtsova, *Putin’s Russia*, (Carnegie Endowment for International Peace, 2nd ed. 2005).

¹⁵ Robert W. Ortung, “Russia,” *Nations in Transit 2005* (Freedom House, 2005), at <http://www.freedomhouse.org>.

¹⁶ Michael McFaul, Nikolai Petrov and Andrei Ryabov (eds.), *Between Dictatorship and Democracy. Russian Post-Communist Political Reform* (Carnegie Endowment for International Peace, 2004).

The rise and fall of oligarchic capitalism

Russia's political economy has undergone a switchback ride since 1985. Reformist "market socialism" was followed by institutional collapse, and then the embrace of radical liberalization – which led not to a competitive market but to oligarchic capitalism. That system in turn imploded in the August 1998 crash, and after 18 months of political stalemate Putin came to power and went on to construct a system of state corporatism.

The collapse of oligarchic capitalism was due to deep contradictions in the model, and not merely contingent factors such as Yeltsin's incompetence or the August 1998 financial crash. Two contradictions stand out. First, the oligarchs were parasitic on the Russian state. They were draining it of assets and revenues, to the point where the soaring budget deficit and profiteering from high-interest treasury bonds helped trigger the 1998 crash. Second, the oligarchs were deeply divided among themselves. They did not trust each other, fighting bitterly over successive privatizations (such as the sale of the telecom holding company Svyazinvest in 1997), and over the Yeltsin succession in 1999.¹⁷

The oligarchs did not have a mechanism for resolving disputes among themselves. The only "mechanism" they had was appeal to Boris Yeltsin. Given that Yeltsin was physically incapacitated for most of the time, this meant they competed for the favor of the Kremlin courtiers (the "Family") who controlled access to the president. Yeltsin's second and final term as president was due to end in March 2000, and the oligarchic system did not have any procedure in place for picking a successor.

At the end of the Yeltsin era, Russia's evolution towards what is regarded in the West as a "normal" market economy was stalled in midstream. Powerful leaders had a vested interest in preserving the status quo, and there was no significant coalition of groups with a stake in further reform. The economy had been sufficiently liberalized to enable the oligarchs to enrich themselves, but not so much as to expose them to effective competition (from foreign companies, for example). This situation was inefficient and morally indefensible, but it was unclear whether or not it was politically and economically stable. Could it continue indefinitely, or would it require a fresh round of market reform? In the end, Russia moved in a third direction – the return of state control.

¹⁷ Stephen Fortescue, "Pravit li Rossie oligarchiya?" *Polis*, vol. 5, no. 8, 2002.

Putin moved quickly in 2000 to regain control of the broadcast media from the oligarchs. The turning point was his attack on Russia's largest oil company, Yukos in 2003. Various Yukos executives were arrested on fraud charges in July 2003 and in October Yukos head Mikhail Khodorkovsky, the richest man in Russia, was himself jailed on vague charges of tax evasion. He was eventually sentenced to eight years in prison.¹⁸ One could not ask for a more vivid illustration of the limits of business independence in Russia. The fact that business evolved into a narrow oligarchy made it relatively easy for the state to recapture the commanding heights of the economy under Vladimir Putin. But even as late as 2003, most observers assumed that the system of oligarchic capitalism had stabilized: few foresaw Putin's crackdown.

In retrospect, we can see that oligarchic capitalism was highly unstable, since the economic fate of the individual oligarchs was too closely tied to the course of state policy. Who would be given the right to acquire the remaining assets of state industry as they were put up for privatization? For how long would the government retain control over the "natural monopolies" such as the railways, Gazprom, the electricity monopoly Unified Energy System, the oil pipeline operator Transneft, Gazprom, the telecom holding Rostelecom? How could the public be persuaded to bite the bullet and accept postponed but necessary reforms of the taxation system, cuts in social benefits and increases in utility prices?

Putin has beaten back the political charge of some oligarchs, notably Khodorkovsky, for a direct share of political power. But the oligarchs as a class have not disappeared. On the contrary they have increased in number and multiplied their wealth. *Forbes* estimates their combined assets doubled from \$90 billion in 2005 to \$172 billion in 2006.¹⁹ They have benefited from the 50% increase in Russian GDP since 1998, reflected in a soaring stock market and successful stock offerings to domestic and foreign investors. No-one can predict whether the oligarchs will remain politically neutralized indefinitely. The future trajectory of state corporatism remains very uncertain in Russia, especially since its chief architect, Vladimir Putin, has stated that he will step down from the presidency when his second term ends in 2008, as required by the constitution.

¹⁸ Natalya Byanova and Andrei Litvinov, "Russian pogrom against the oligarchs," *Gazeta*, 24 December 2003.

¹⁹ Anna Smolchenko, "Russia's richest," *Moscow Times*, 12 March 2006.

Sources of pluralism in the Russian economy

“Every good and evil that exists, if you mark it well it is for a blessing.”

Emperor Babur

It is important to bear in mind that Russia really is different from other resource-cursed economies – both in the structure of its political economy and in the path by which it arrived where it is. Russia in 2006 is clearly *more* dependent on resource exports than was the Soviet Union of 1985, yet it is also more democratic, even by Freedom House measures.

There are several arguments that challenge the conventional wisdom that oil wealth is necessarily fatal for Russian democracy:

- 1) the oil and metals oligarchs may serve as a counterbalance to the security state elite, introducing an element of pluralism that would otherwise be lacking.
- 2) oil and gas development and export sales requires Russia to engage with the outside world, economically and hence politically.
- 3) Russian state capacity has improved significantly since 2000, and the creation of the Stabilization Fund in 2004 gives cause to hope that the Dutch disease might be averted.
- 4) the persistence of energy cross-subsidization in the domestic economy forces a degree of public accountability on the Russian state, and provides a focal point for the opposition to rally.

During the 1990s Russia experienced a wrenching slump during which its GDP fell by 40%, only recovering to the 1990 level in 2002. Despite that, Russia managed to become a market economy, albeit one with “Russian characteristics.” Seventy percent of economic activity takes place in legally independent private corporations, and a similar proportion of economic transactions occur through market-clearing prices. The centralized, command economy was smashed, although elements of such a model persist at local level in some regions (such as Tatarstan or Kalmykiya).

Although the privatization program was intended to create a competitive market by dispersing ownership throughout the society, the result when the dust settled was a remarkable degree of

market concentration. According to a World Bank study, by 2001 the country's 23 largest firms were estimated to account for 30% of Russia's GDP, and these firms were effectively controlled by a mere 37 individuals.²⁰ *Forbes* estimated there were 33 dollar billionaires in Russia by 2006, the third highest number in the world. (Table One) By international standards, this is an astonishing concentration of wealth and industrial power in such a large country, all the more surprising given the fact that private ownership was outlawed for decades, and this entire economic elite did not exist 15 years ago.

At the same time, Russia has become much more integrated into global economy than was the Soviet Union. Trade went from 17% of GDP in 1990 to 48% in 2004.²¹ And most of this trade is with Europe, not with the former Soviet states. Now the Commonwealth of Independent States only accounts for 15% of Russia's export and 23% of its imports.²² This external opening has been the most dynamic and successful aspect of Russia's market transition. And Russia's charge into the global market was led by the energy sector.²³ Clearly, Russia's comparative advantage in the contemporary global economy lies in energy and energy-intensive industries such as metals and chemicals. Oil and gas accounted for 61% of Russia's export earnings in 2005, with the absolute amount tripling from \$30 billion in 1999 to \$100 billion in 2004.²⁴ Whether energy accounts for 9% of the entire Russian economy, as Goskomstat reports, or 25%, as the World Bank calculates, it has been driving the post-1998 economic recovery, accounting for about half of the growth in GDP. Unlike most RC economies, Russia has a developed manufacturing industry, so a high proportion of its energy output is used domestically. Only 56% of its crude oil, 34% of its natural gas, and 42% of refined oil products are exported.²⁵

²⁰ World Bank, *From Transition to Development*, April 2004. www.worldbank.org.ru The study was conducted in 2003 and was looking at company structure as of 2001. For more details, see Sergei Guriev and Andrei Rachinsky, "Oligarchs: the past or the future of Russian capitalism?," Cefir, Moscow, 15 June 2004. www.cefir.org/papers

²¹ World Bank, *ibid.* The 48% share in part reflects the under-valued exchange rate. The World Bank's purchasing power estimate for 2002 boosted Russian GNI from \$306 billion to \$1,165 billion. This would accordingly reduce the share of trade in GDP.

²² IMF *Direction of Trade Statistics 2005*, (Washington D.C. 2006).

²³ International Energy Agency, "Share of Total Primary Energy Supply in 2003. Russia," *Key World Energy Statistics* (Paris: International Energy Agency, 2005); at www.iea.org/statist/index.htm; Energy Information Administration, *Country Analysis Brief-Russia* (Washington, D.C.: U.S. Department of Energy, January 2006), 4, at www.eia.doe.gov/emeu/cabs/Russia/Oil_exports.html.

²⁴ World Bank, *Russian Economic Report*, no. 12, April 2006. http://ns.worldbank.org.ru/files/rer/RER_12_eng.pdf. Shinichiro Tabata, "Oil and gas revenues and their influence on economic growth in Russia," ICCEES, Berlin, July 30, 2005.

²⁵ Tabata, *ibid.*

Variations on a theme

“We know that one of our main tasks is the diversification of the economy. That it is essential to depart from a model based on raw materials is obvious.”

Vladimir Putin, speaking in Novosibirsk, 11 January 2005.

There are at least four ways in which the structure of Russia’s political economy diverges from the resource curse model.

First, in striking contrast to other resource-dependent economies, Russia’s post-Soviet privatization process resulted in a **pluralistic ownership structure in the oil industry**. The oil ministry was split into a dozen independent corporations, along the lines of regional oil fields or packages of oil refineries.²⁶ In addition to these production companies, there were hundreds of small independent companies created as middlemen for oil operations – typically to hide earnings from the tax authorities and creditors. This plurality of ownership is highly unusual in an international perspective. Only the US and UK have significant competition among oil producers – and neither of those countries is resource-cursed. In all the other major producers (even Norway), oil production is controlled by one or two state-owned companies. Whereas in most countries it is the oil producers who build and own the pipelines, in Russia the state retained control over the pipeline system, through the state-owned corporation Transneft.²⁷

This pluralization led to intense political bargaining in Russia, both “vertically” and “horizontally.” The federal government had to bargain with regional oil barons, such as the presidents of Tatarstan and Bashkortostan, who won tax exemption in the bilateral treaties they negotiated with Yeltsin in 1994. Putin has only slowly and gradually been able to claw back some of these concessions since 2000 – and the bosses themselves (Presidents Shaimiev and Rakhimov) are still in power as of 2006.

“Horizontal” bargaining refers to the fierce turf wars and take-over battles that erupted among the Russian oil majors. These battles spilled over into regional politics, with each oil company

²⁶ V.A. Kryukov, “Who is the boss in the oil house?” *EKO*, November 2001; Kim, *op. cit.*

²⁷ Transneft handles 71% of crude exports, 14% go by rail, 3% by the Caspian Pipeline Consortium, and the remainder by sea. *Russia Country Analysis Brief*, Energy Information Administration, January 2006, www.eia.doe.gov

acquiring one or more regional bases – not only the provinces where their production facilities were located, but also regions which offered them tax shelters, such as Sibneft descending on distant Chukotka, or Yukos channeling some of its earnings through the oil-free Mordova. These battles culminated in the abortive merger of Sibneft and Yukos in 2003, and the subsequent state takeover of Yukos.²⁸ By 2004, the largest companies by share of reserves were Lukoil 23%, Rosneft 14%, TNK-BP 12%, Yukos 11%, Surgut 9%, Gazprom 9%, Tatneft 8% and Bashneft 3%.²⁹

These struggles for control over assets spilled over into the political system, with many of the corporations actively involved in political life: creating private security companies to guard their assets; running intelligence operations to gather compromising material on their rivals; buying media outlets; subsidizing political parties; and sponsoring parliamentary deputies, overtly and covertly. They also took their lobbying directly into the state administration itself. At the peak of oligarch power, in 1997-2000, Russia looked far removed from the pattern of state-domination usually associated with the RC. The state proved too weak and fragmented to capture the rents from the oil and gas industry; on the contrary the industrialists had captured the state.³⁰

This pluralism in oil ownership did not extend to foreign companies. Russia introduced a limited system of production sharing agreements in 1995, but only three of 21 mooted projects were implemented before the regime was abolished in 2003.³¹ The only major foreign acquisition that took place was the merger of BP and TNK in 2003. Foreigners have been allowed to take a minority stake in Russian oil companies, such as Lukoil.³²

Second, there is the fact that Russia is **equally endowed with both oil and natural gas**: it is the world's no. 2 oil producer and no. 1 gas producer. Natural gas assets were kept separate from oil,

²⁸ Natalya Byanova and Andrei Litvinov, "Russian pogrom against the oligarchs," *Gazeta*, 24 December 2003.

²⁹ This includes Yuganskneftegaz under Rosneft. *Russia Country Analysis Brief*, EIA, *op. cit.* See also John Grace, *Russian Oil Supply. Performance and Prospects* (Oxford University Press, 2005); Jennifer I. Considine and William A. Kerr, *The Russian Oil Economy*, (Edward Elgar, 2002).

³⁰ Joel Hellman, "Winners take all. The politics of partial reform in post-communist transitions," *World Politics*, no. 50 (January 1998), pp. 203-34.

³¹ These are Sakhalin-1 and Sakhalin-2 led by ExxonMobil and Royal Dutch Shell and the Kharyaga project in Siberia, led by France's Total. Exxon signed an agreement for Sakhalin 3 in 1993, but it lapsed and the license has been revoked.

³² Catherine Locatelli, "The Russian oil industry between public and private governance" *Energy Policy*, November 2004. Foreigners were limited to 15% of any oil company's stock between 1992 and 1997.

and were privatized into a single nationwide corporation, Gazprom.³³ Gazprom served as an important political resource for the state, domestically and internationally, and balanced out the aggressive maneuverings of the oil companies. One example, from former presidential advisor Yevgenny Yasin: “Back in 1997 Yeltsin told the federal government to cover regional backlogs in pension payments. Gazprom borrowed \$1 billion for that purpose; otherwise Yeltsin’s order couldn’t have been carried out.”³⁴

The gas market is quite distinct from the oil market, domestically and internationally. It is less volatile, depending on more expensive long-term investments in pipeline systems or LNG facilities. While Russia’s domestic oil prices were liberalized by the mid-1990s and rose close to world-market levels, the natural gas price remained heavily regulated. (Currently domestic consumers pay about \$40 per cubic meter, while Gazprom’s European customers pay \$230.) Through the 1990s Western officials pressed Russia to break up Gazprom, or at least allow private companies access to their pipelines, without success. IMF pressure for reform evaporated when Russia repaid its \$3.3 billion outstanding debts to that organization ahead of schedule in February 2006, and the EU gave up its insistence on the equalization of domestic and export natural gas prices in March 2006, in return for a Russian pledge to ratify the Kyoto accord. Arguably the political trajectory of Russia would have been very different – and perhaps much more democratic – if the oligarch model of the late 1990s had sunk deeper roots and displaced state corporations such as Gazprom and the electricity monopoly RAO UES.

Third, Russia’s resource endowment is not limited to oil and gas. **It has a massive metals industry** including iron and steel, non-ferrous metals such as copper and nickel, and precious metals such as gold and diamonds. The metal barons developed multi-billion dollar industries largely independent from the oil and gas companies: their closest interaction was with the coal industry and with the electricity monopoly, RAO UES, because of their reliance on cheap electricity. The metal barons’ mines and factories were located in specific territories, typically great distances from Moscow, and they formed powerful alliances with local political leaders, providing another counter-balance to the federal authorities in Moscow. Of the 33 Russians on *Forbes’* 2006 list of billionaires (Table One), only 12 are clearly identified as coming out of the oil and gas sector, while 15 are based in the metals industry (often merged with coal interests).

³³ Independent gas producers account for 14% of Russia’s output, nearly doubling their production 2000-05, but they are not allowed to export. *Moscow Times*, 23 June 2005.

³⁴ Vadim Dubnov, “Our last Urengoi,” *Novoe Vremya*, no. 6, February 2006. See Jonathan Stern, *The Future of Russian Gas and Gazprom* (Oxford University Press, 2005).

This creates an economy that is far from a competitive environment that would pass muster for Adam Smith or Joseph Schumpeter, but it is a more complex and differentiated political economy that the “resource curse” label would usually imply.

Fourth, there is Russia’s **strong state tradition** to consider. Putin was able to draw upon Russia’s statist tradition to rebuild state power after 2000. He tapped into popular support for a strong leader to win election as president in 2000 and 2004. And he marshaled the police powers of the state to take down Russia’s richest man, Mikhail Khodorkovsky, and dismember his Yukos corporation. This happened despite – or perhaps in response to – Khodorkovsky’s moves to prepare his company for sale to a Western oil major. Khodorkovsky had also sought to strengthen his power base by cultivating international support, through philanthropic activities and meetings with political leaders. Clearly, in this case national state power trumped international oil wealth.

The Soviet state tradition reminds us that there are counter-factual and contextual arguments to consider. In the Russian case, one type of market distortion (communism) has been replaced by another (RC). The RC argument implicitly applies to economies that, prior to the discovery and exploitation of minerals, were diversified, with a variety of traditional sectors. However, in the Russian case the switch to resource dependency came in the wake of the collapse of a hyper-centralized political economy, one in which the state exerted a degree of control over economic activities not seen in the most cursed of resource-driven economies. The alternative, therefore, to resource dependency was Soviet style central planning – a pattern of economic organization that still persists in Belarus and Uzbekistan.

The Dutch and other diseases

Resource-dependent economies are prone to a variety of maladies: an over-valued exchange rate; fluctuations in revenues that lead to over-optimistic state spending; increased opportunities for corruption due to the concentration of rents; and inefficiencies because of the prominent role of state controlled enterprises, leading to lower capital productivity and hence slower long-term growth. Russia is certainly showing signs of many of these ailments.³⁵ On the other hand, the recovery since 1998 has been strong and sustained, and Russia's resource endowment and the state of the global energy market give no reason to imagine that it must end any time soon.

Many economists worry that Russia is succumbing to the "Dutch disease". The influx of oil and gas revenues is driving up the value of the ruble (real appreciation has been 80% since 1999), making Russian manufacturing and farming internationally uncompetitive. This comes at a time when Russia is moving towards joining the World Trade Organization (WTO), which will further limit its ability to defend domestic producers with tariff and non-tariff barriers. High returns on investment in the energy sector will drive up the cost of capital, putting further pressure on domestic manufacturers. More generally, oil wealth fuels corruption and complacency, leading Putin to promise "not to fall asleep under the warm blanket of petrodollars."³⁶

The threat of the Dutch disease may be overrated. In Russia energy accounts for some 25% of GDP and 60% of federal revenues and export earnings. These are high figures, but not as high as in Saudi Arabia or even Venezuela. Services, transport and the public sector are all fairly immune to the Dutch disease, being non-tradable. All three sectors are underdeveloped in Russia compared to more mature market economies, leaving plenty of room for non-oil growth. Assuming that the Central Bank and Finance Ministry are competent enough to sterilize the capital inflows, the Dutch disease should be manageable. It did not prove fatal to the Dutch, after all.

³⁵ Pauline Luong Jones and Erika Weinthal, "Prelude to the oil curse," *Comparative Political Studies*, vol. 34, no. 4, 2001, pp. 367-99; Pauline Luong Jones and Erika Weinthal, "Combating the resource curse," *Perspectives on Politics*, vol. 4, no. 1, March 2006, pp. 35-53.

³⁶ *Wall Street Journal*, 26 March 2004.

Russia has been following cautious fiscal and monetary policies since 2000. Its fiscal policy is closer to Norway than that of Nigeria or Venezuela.³⁷ Spending has increased from \$34 billion in 2000 to \$130 billion in 2005, while receipts went from \$40 billion to \$153 billion. They have run a substantial fiscal surplus each year, and have not rushed into unsustainable spending projects.³⁸ In 2004 the government created a Stabilization Fund, into which are paid excess taxes from oil exports when the price exceeds \$20 a barrel (raised to \$27 in 2006). The record of such funds is mixed: their creation is no guarantee that they will be immune to politically-motivated or corrupt spending.³⁹ The Russian fund reached \$27 billion by January 2005 and \$80 billion by June 2006, with foreign reserves standing at \$277 billion, the third highest in the world.⁴⁰ State foreign debts are now \$53 billion, 9% of GDP, down from a peak of \$150 billion and 150% of GDP in 1998.

In the short-term, of course, the outlook looks good. The surge in the world oil price swells the coffers of the oil producers and of the federal government. The federal budget ran a surplus of 4.1% of GDP in 2004 and 7.5% in 2005, with revenues at 23.6% and spending 16.2%.⁴¹ The surplus means that the government is able to improve public services, pay off its international debts, and avoid financial crises. The question of how to spend the surplus has led to some bickering among government ministers. The Finance Ministry wanted to use it to pay down Russia's foreign debt, while the Health and Social Welfare Ministry wanted it to plug the \$3 billion deficit in the Pension Fund, and help regions compensate citizens for the monetization of social benefits.⁴² The finance ministry won the argument, paying down in 2005-06 the \$45 billion that Russia owed to the Paris Club of official creditors, saving an estimated \$12 billion in future interest payments. Putin launched four high profile "national projects" in 2005, but these will cost less than \$4 billion in 2006, just 3% of total spending.⁴³ Still, the fact that despite its best efforts

³⁷ Sadek Bousseni and Catherine Locatelli, "Towards a more coherent oil policy in Russia?" *OPEC Review*, vol. 29, no. 2, pp. 85-100, June 2005.

³⁸ Spilimbergo estimates that without oil windfall revenues (ie. with oil at \$20 a barrel), the budget would have been in surplus in 2000-01, but sliding into deficit reaching 2.6% of GDP by 2005. Antonio Spilimbergo, "Measuring the performance of fiscal policy in Russia," IMF Working Paper 05/241, December 2005, table 3.

³⁹ Such funds have been created in Kuwait, Norway, Colombia, Venezuela, Azerbaijan, Chad, Alaska and Alberta. Nancy Birdsall and Arvind Subramanian, "Saving Iraq from its oil," *Foreign Affairs*, vol. 83, no. 4, July 2004, pp. 77-89.

⁴⁰ Alexander Bekker, "Behind the rest of the world," *Vedomosti*, 22 August 2006.

⁴¹ World Bank, *Russian Economic Report*, no. 12, April 2006.
http://ns.worldbank.org.ru/files/rer/RER_12_eng.pdf

⁴² Aleksei Zaiko, "Discounts from the stabilization fund," *Kompaniya*, 7 February 2005.

⁴³ Dmitri Butrin, "The national project government," *Kommersant*, 30 December 2005.

the government cannot bring inflation below 10% per year, nor prevent the steady appreciation of the ruble against the dollar, signals that Dutch disease pressures do pose a continuing challenge.⁴⁴

Russia is confident that its role in world energy markets is secure. It provided 48% of the increase in world oil supply 1998-2004 and has 72 billion barrels of proven reserves, 6.1% of the world total.⁴⁵ Investment in the Russian oil industry was \$12 billion in 2004, 70% up on 1998, which is roughly comparable to the \$65 billion invested globally by the Big Five oil majors in 2004. Investment in extraction accounted for 30% of total investment in the Russian economy in 2006 and refining another 27%.⁴⁶ Meanwhile cash-rich energy companies have attractive price-earnings ratios and suck in foreign portfolio investors. Over the past decade each spike in world oil prices has led to a surge in new drilling, with a 3-6 month time lag, as companies drill in the marginal, high cost corners of existing fields. So output has been rising in response to the higher price level, at 8-11% a year 1999-2004 and 6-7% thereafter.

A viable development model?

State-owned firms may well be less efficient than privately owned firms, but whatever the hypothetical long-term benefits of oligarchic capitalism, the historical record of the 1990s was that the system proved politically unsustainable in Russia. Also, it is not preordained that state-owned firms will always be hopelessly inefficient. Putin is not closing off the Russian economy from the outside world, quite the contrary. Russia's state conglomerates are cooperating more closely with Western partners, upgrading their managerial and accounting procedures in order to make themselves more attractive to foreign direct and portfolio investors.

In the wake of the break-up of Yukos the share of oil output produced by majority state-owned companies rose from 16% in 2003 to 43% in 2006. The overall state share in the economy rose

⁴⁴ Annual inflation (%) 2002-05 was 15.8, 13.7, 10.9, and 11.8, with a 9.7% projection for 2006. IMF *World Economic Outlook Database*. www.imf.org

⁴⁵ William Tomson and Rudiger Ahrend, "Realizing the oil supply potential of the CIS," Paris: OECD, 18 May 2006. It has 27% of the world's natural gas reserves. Estimates range from 40 to 140 billion barrels, due to uncertainties over ownership rights and cost conditions and the fact that such data are considered state secrets.

⁴⁶ World Bank, *op. cit.*, 2006.

from 30% to 35%.⁴⁷ The main Yukos production unit, Yuganskneftegaz, was sold to state-owned Rosneft for \$9.35 billion in December 2004. A plan for Gazprom to absorb Rosneft was derailed after months of backroom maneuvering, but the government went ahead with a complex plan to buy 10.7% of Gazprom shares in order to raise the state holding to 51%, using a loan that will be paid off with a public offering of \$7.5 billion of Rosneft stock. Gazprom was compensated for its failure to take over Rosneft by being allowed to buy independent gas producer Norgaz and Roman Abramovich's Sibneft, the fifth largest oil company, in November 2005. Gazprom paid \$13 billion for 73% of Sibneft shares, close to a market price.

At the same time as Putin has built this new model, he is still committed to integration with Western economic institutions. And this is not merely a rhetorical commitment. There are at least four reasons. First, Putin knows that Russia is dependent on its energy customers in Europe. Second, he is aware that Russia needs Western managerial and technological expertise – but he prefers to tap this without conceding ownership or control over the Russian economy. Third, Putin wants the political cover that he hopes will come with Western corporate involvement. The most blatant example was the appointment of former German Chancellor Gerhard Schroeder to chair the North European Gas Pipeline, and the invitation to former U.S. Commerce Secretary Donald Evans to chair the Rosneft board. Finally, Moscow is confident that the new state corporations like Gazprom and Rosneft, alongside private companies like Lukoil, will become increasingly powerful players on the international energy stage, through increasing acquisitions of assets in foreign countries.

Hence Western corporations are being allowed in as partners in energy projects, but on a minority basis. In 2004 ConocoPhillips bought an 8% stake in Lukoil, now raised to 17%, and Conoco's Kevin Meyers was elected to Lukoil's board. Royal Dutch Shell is being forced to bring Gazprom into its Sakhalin II project, and BP-TNK is under pressure to share its giant Kovytko field in Siberia. A new subsoil resources law will bar foreign companies from more than 50% ownership of any field deemed "strategic." In September 2005 Gazprom released a short list of partners for the giant Shtokman field in the Barents Sea, comprising Chevron, ConocoPhillips, Total, and Norway's Norsk Hydro and Statoil. The winners will be expected to allow Gazprom to acquire a share in their assets overseas.

⁴⁷ Oil share from Tomson, *op. cit.*; total share according to the European Bank for Reconstruction and Development quoted in Neil Buckley and Arkady Ostrovsky, "Back in business - how Putin's allies are turning Russia into a corporate state," *Financial Times*, 19 June 2006.

Ironically, Western bankers have played an active role in financing Putin's renationalization program. In 2005-06 Rosneft borrowed \$8 billion, Gazprom \$13 billion, and Rosneftegaz \$7.5 billion. The banks are keen for this business because they expect it to lead to lucrative fees with upcoming stock offerings. In December 2005 Putin signed into law the lifting of the "ring fence" which had limited foreigners to 20% of Gazprom shares. Rosneft is expected to float up to 40% of its stock later this year. It is less clear why the government is encouraging these companies to borrow, even while Russia is flooded with petrodollars and is paying off its sovereign debt ahead of time. Again it seems to be a deliberate strategy to promote Russia's integration with the West, and to gain Western complicity in the new economic model.

The politics of subsidies

Some of the rents from energy exports are used to keep other domestic sectors afloat. The main vehicle for cross-subsidization is the maintenance of artificially low prices for domestic consumers of gas and electricity. (Refined oil products have generally been allowed to rise to near world-market levels). Under pressure from the government, Gazprom uses export revenues to subsidize domestic consumers, creating a mini-planned economy based on cheap energy. The biggest beneficiaries have been the energy intensive metals producers who have enjoyed an export boom thanks to electricity prices fixed at one quarter of those in Europe.

The electricity generating and transmitting monopoly, United Energy System (RAO UES), has been one of the main casualties of this policy. The Federal Energy Commission has held the annual rise in electricity prices well below the rate of domestic inflation since the late 1990s. UES claims that the selling price is below the cost of production, and it is certainly below the level needed to replace out-dated generating plants. UES has to pay close to market prices for many of its inputs (gas, fuel oil, coal, rail transport) but faces strict price controls over its sales to industrial and domestic consumers. Unlike Gazprom, UES does not have many export earnings of its own, and it bears the main burden of the scissors between domestic and export energy prices. Political pressure prevents UES from cutting off electricity to large categories of non-payers such as communal housing services and military installations.

Efforts to raise electricity prices in 2004-05 produced street demonstrations and protests from regional and municipal leaders. Even some parliamentary members of the pro-government United Russia party, sensing their political vulnerability, started to denounce the reforms. Full price liberalization was postponed until the completion of the five-year plan to reform the sector, unveiled in 2000 by UES head Anatolii Chubais. That plan has proceeded slowly, with Chubais brokering complex bargaining between regional governors, local industrialists, and UES shareholders. But the privatization cannot really proceed until prices have been increased, since investors do not want to buy loss-making regional utilities. After Putin brought in Mikhail Fradkov to replace Mikhail Kasyanov as Prime Minister in February 2004, the pace of liberalization slowed even more. In April 2004 Fradkov declared that the government would not allow any private oil pipelines to be built, and in June 2004 he announced a six-month freeze in the ongoing privatization of UES.

This situation has left the energy sector facing some perverse incentives. Energy companies have incentives to expand the export infrastructure (and they are doing so), but not to expand domestic production. It is easier for them to divert supplies from domestic to foreign buyers than to expand output. The persisting uncertainty over the future division of rents gives them less incentive to expand the size of the rents in the immediate term.

Conclusion

The resource curse is not a law of nature. Well-designed state policies can mitigate its most damaging effects. It's still an open question whether Putin's state corporatism may succeed in avoiding the dire consequences for Russia that the resource curse model predicts. Critics of the Putin strategy propose an economic development model whose chances for success are just as hypothetical as the government's strategy. Throwing open Russia's oil and gas industry to majority-stake foreign investors would probably lead to a surge in investment that would boost their earnings and lower global oil prices. But would it benefit Russian workers and consumers, or lead to lower levels of corruption? Neighboring Azerbaijan and Kazakhstan have pursued such a path, but are hardly models of democratic accountability. And in any case, the Russian government has rejected such a development model and seems determined to stick with its chosen strategy.

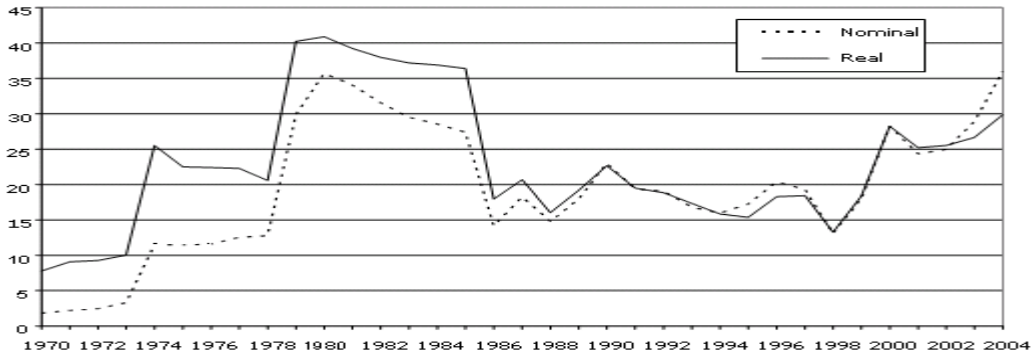
TABLE ONE

FORBES 2006 BILLIONAIRES LIST

World Ranking 2006 (2005)		Estimated net worth (\$ bn) 2006 (2005)		
11 (21)	Roman Abramovich	18.2	(13.3)	Millhouse Capital, Sibneft, Rusal,
37 (122)	Vagit Alekperov	11.0	(4.3)	Lukoil, Imperial Bank
41 (60)	Vladimir Lisin	10.7	(7.0)	Novolipetsk steel
44 (94)	Viktor Vekselberg	10.0	(5.0)	TNK-BP, SUAL Holding (aluminum)
50 (60)	Mikhail Fridman	9.7	(7.0)	Alfa Group, TNK-BP
62 (84)	Oleg Deripaska	7.8	(5.5)	Base Element, Rusal, GAZ
64 (107)	Alexei Mordashov	7.6	(4.8)	Severstal (steel)
72 -	Suleiman Kerimov	7.1	-	possibly Nafta-Moscow, SPK Razvitie
89 (117)	Vladimir Potanin	6.4	(4.4)	Interros, Norilsk Nickel, Sidanco
89 (117)	Mikhail Prokhorov	6.4	(4.4)	Norilsk Nickel
93 (258)	Vladimir Yevtushenkov	6.3	(2.4)	AFK Sistema, incl MTS telecom
94 (306)	German Khan	6.1	(2.1)	Alfa Group, TNK-BP
109 (306)	Nikolai Tsvetkov	5.2	(2.1)	Uralsib, formerly Nikoil (oil, insurance)
125 (272)	Alexander Abramov	4.9	(2.3)	Evrzholding (coal, steel)
129 (413)	Alexei Kuzmichyov	4.8	(1.6)	Alpha Group
136 (413)	Iskander Makhmudov	4.5	(1.6)	UGMK (Ural Mining & Metals Co)
158 (272)	Vladimir Bogdanov	4.1	(2.3)	Surgutneftegaz (oil)
168 (321)	Leonid Fedun	4.0	(2.0)	Lukoil
173 (228)	Boris Ivanishvili	3.9	(2.6)	Mikhailovsky mining enrichment co.
185 (151)	Viktor Rashnikov	3.6	(3.6)	Magnitogorsk Metals
194 (413)	Alexander Lebedev	3.5	(1.6)	National Reserve Corp. (bank, aviation)
224 -	Pyotr Aven	3.0	-	Alfa Group
258 (548)	Sergei Popov	2.7	(1.2)	MDM Group (metals)
258 (548)	Andrei Melnichenko	2.7	(1.2)	MDM Group
278 (366)	Alisher Usmanov	2.6	(1.8)	Metalloinvest, (iron & steel)
292 -	Leonid Mikhelson	2.5	-	Novatek (gas)
335 (507)	Yelena Baturina	2.3	(1.3)	Inteko (Moscow construction)
335 -	Alexander Frolov	2.3	-	Evrzholding (coal, steel)
410 -	Rustam Tariko	1.9	-	Russ. Standard Bank, Standart vodka
451 (437)	Igor Zyuzin	1.7	(1.5)	Yuzhny Kuzbass (coal), Mechel (steel)
451 (437)	Vladimir Iorikh	1.7	(1.5)	Kuznets Coal, Mechel (steel)
486 -	Dmitry Rybolovlev	1.6	-	Urakkali (fertilizer)
606 -	Vasily Anisimov	1.3	-	Metalloinvest, prev. Rossiiskii Kredit.

Source: <http://www.forbes.com/billionaires/> April 2006

Figure One Crude petroleum price, 1970-04 US\$/barrel



Source: World Trade Organization press release 401, April 2005, *World Trade 2004*.
http://www.wto.org/English/news_e/pres05_e/pr401_e.htm

Figure Two Freedom House ratings for Soviet Union/Russian Federation, 1972-2004

(political rights and civil rights added together)

