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GAZPROM LIBERAL POLITICS IN RUSSIA: POTENTIAL AND RISKS REGIONAL ELECTIONS

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Analysis

Gazprom – A Reliable Partner for Europe’s Energy Supply?

By Andreas Heinrich, KICES, Koszalin

Summary

The conflict with Ukraine over natural gas in January 2006 that also caused delivery shortfalls in Central and Western Europe gave rise to concerns in the EU, including in Germany, as to the reliability of Russia – and thus of Gazprom – as an energy supplier. On the one hand, Gazprom is striving for greater integration in the world market, while on the other hand, it seeks to maintain its dominant monopoly position in the opaque markets of the Commonwealth of Independent States (CIS). The company keeps a tight rein on competition in the post-Soviet natural gas market and acts as sole supplier of natural gas from Russia and Central Asia on the foreign markets. The strategy pursued by Gazprom within the CIS is fundamentally incompatible with the basic tenets of the EU’s energy policy in terms of competition and non-discrimination. Despite these contradictions, Gazprom has proven to be a reliable supplier of natural gas to the EU.

Introduction

The conflict with Ukraine over natural gas in January 2006 that also caused delivery shortfalls in Central and Western Europe gave rise to concerns in the EU, including in Germany, as to the reliability of Russia – and thus of Gazprom – as an energy supplier. This article will therefore analyze the motives, plans, and rationale of Gazprom’s actions in order to determine whether Gazprom acts as an independent actor or as an extension of the Russian government, and to find out who directs the company’s policy. It is important to distinguish between the CIS, which Russia regards as its own sphere of influence, and the “far” abroad as seen from Russia.

Within the CIS, the Russian gas monopolist tries to limit competition and to preserve market structures that lack transparency, and thus to act as sole supplier of natural gas from Russia and Central Asia to the foreign markets. Therefore, Gazprom is in favor of preserving state-regulated markets (though it advocates raising the natural gas prices that are determined by the state) and is trying, in accord with Russian foreign policy, to reestablish its predominance in the energy markets on the territory of the former Soviet Union.

As a result, Gazprom’s behavior in Russia and within the CIS is very different from its conduct on the international markets. It is therefore important to distinguish between the level of the CIS – or in Russian parlance, the “near abroad” – and the international stage that lies beyond. This approach reflects the enduring discrepancies in the institutional structures of the markets that Gazprom operates in, but equally takes into account the Russian government’s notion of zones of influence, according to which the CIS is still regarded as part of the Russian hegemonial sphere.

Gazprom and the CIS

The company, in close cooperation with the Russian state, has been trying since the 1990s to reinstall a consolidated energy sector in the “near abroad” and thus to expand the regulated markets. The strategy to achieve this goal involves the creation of transnational companies under Russian leadership as well as shared development and production projects. Energy deliveries negotiated by state officials, and Russian credits to finance them, also serve to integrate the natural gas industries of the CIS countries. The debts of the buyer states, which are further accelerated by this form of financing, are leveraged for the acquisition of company shares in the respective country’s energy sector.

At the level of the “near abroad”, mutual manipulation and instrumentalization between Gazprom and the Russian government is commonplace. However, despite the fundamental correspondence of interests, the two parties have not always interacted in a spirit of cooperation. Measures undertaken by one side have repeatedly obstructed or even prevented the other from realizing its goals. This can be demonstrated using transit states and gas-exporting countries as an example.

Weakening the Central Asian competition

Gazprom is using all its influence to keep in check its Central Asian competitors, who are seeking access to the world markets. To date, all pipelines exporting natural gas from Central Asia pass through Russian territory. Gazprom and the Russian government are exerting massive pressure to thwart any planning or implementation of alternative routes that would circumvent Russia.

The most important Central Asian gas-produc-

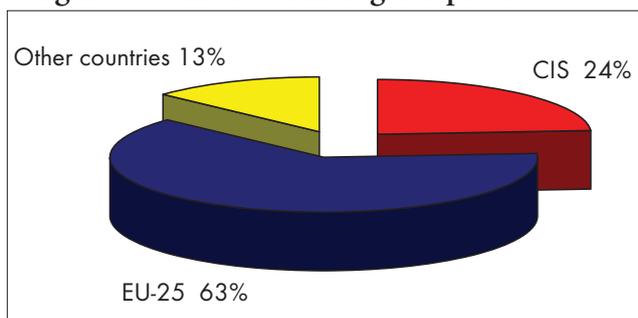
ing country by far is Turkmenistan. Until 1994, Gazprom had granted Turkmenistan a transit quota of 11 per cent of the pipeline network's total capacity. Subsequently, Gazprom denied the country that quota and instead tried to sell its own natural gas to Turkmenistan's clients. Gazprom even vigorously obstructed Turkmenistan's access to customers in the financially weak CIS states.

The situation only improved in 2000, when Gazprom was no longer able to meet all its delivery obligations through its own production. Gazprom then conceded part of the financially weak, low-price end of the CIS market to Turkmenistan in order to be able to fulfill its supply contracts with Western and Central European customers. Since then, Turkmenistan has played an important role in the company's strategy, as exemplified by the temporary resolution of the natural gas conflict with Ukraine in January 2006. It is envisaged that Turkmenistan will advance to become the main supplier to Ukraine, and that its cheap deliveries will set off the high prices charged by Gazprom. So while Gazprom charges US\$230 per thousand cubic meters for its gas, Ukraine only pays an average price of US\$95. This price difference comes at the expense of Turkmenistan.

The refusal of Gazprom to transfer Turkmen natural gas to more solvent customers in Western Europe forced Turkmenistan to seek export options southwards that would skirt Russian territory. However, all such projects have failed, and Turkmenistan will remain dependent on Russian export pipelines for the time being. Turkmenistan, therefore, has only partially managed to translate its importance for Gazprom's supply strategy into a stronger negotiating position. The price increases for Turkmen natural gas are far below the price rises that Gazprom has been able to enforce vis-à-vis its non-Russian customers.

Since Gazprom continues to be the sole operator of the gas pipelines from Central Asia that pass through Russian territory, it can exclude the contractors from that region from the direct export business.

Diagram 1: Russian natural gas exports



Competition within the CIS market is thus largely avoided. The liberalization of the Russian gas sector, which would imply a division of extraction, transport, and sales services among independent companies, has been ruled out by the Russian government for the time being. The Russian side even refuses to offer guarantees on transit deliveries as stipulated by the European Energy Charter.

Gazprom and the transit countries

Within the CIS, Gazprom is trying to assert control over the natural-gas infrastructure, and especially over the export pipelines. Ukraine and Belarus have a key role here, since approximately 85 per cent of Russia's natural gas exports pass through these two countries. Both of these transit states are also consumers of Russian natural gas. Gazprom could theoretically use the many years' worth of accumulated arrears in payment for gas deliveries as a way of enforcing its own interests. The company has therefore been trying for years to acquire ownership of transport pipelines or the companies that run them, as a way of offsetting debts. However, it has only rarely managed to do so. Ukraine, though, has been particularly successful in exploiting its strong position as a transit country to compensate for its weak position as a customer and debtor of Gazprom.

The relationship with Ukraine has long been determined by disagreements over debts for Russian natural gas, transit fees, and Gazprom's charges that Ukraine was illegally siphoning off gas for its own use from the transit pipelines. The Russian government supported Gazprom's attempts to resolve these disagreements and to persuade Ukraine to pay off its debts. Gazprom and the Kremlin attempted to apply joint pressure on their Ukrainian negotiating partners.

These enduring disputes with Ukraine prompted Gazprom to consider alternative transport routes. This move was intended to smash the Ukrainian transport monopoly and to generally reduce transit through the former member states of the Soviet Union as far as possible. One of these alternatives is the Yamal-Europe pipeline, inaugurated in 1999, which passes from Western Siberia through Belarus and Poland to Germany. While this route avoids Ukrainian territory, it has not ended the disputes with the transit countries.

The importance of Belarus as a transit country has increased since the construction of the Yamal-Europe pipeline. Gazprom was therefore obliged to make concessions concerning the country's natural gas debt. Additionally, the Russian government had a hand in shaping prices and determining the method of pay-

ment – mainly in order to prevent Gazprom’s business policies from endangering the political and economic union of the two countries.

Despite Gazprom’s compromises, disagreements with Belarus increased, leading to the interruption of deliveries via the Yamal-Europe pipeline in early 2004. In this way, Gazprom hoped to exert pressure on the Belarusian government in order to be able to enforce its price demands and take over complete control of the Yamal-Europe pipeline. The Russian government supported the company in this endeavor. However, Gazprom’s attempt was largely unsuccessful and was aborted after a couple of days. It was not until December 2005 that the company was able to acquire control over the Yamal-Europe pipeline. In return, Gazprom delivers natural gas to Belarus at a fraction of the average price paid in Europe. Table 1 offers an overview of Gazprom’s pricing policies.

In order to increase the independence of its exports and to circumvent the existing problems with Belarus and Poland, Gazprom in 2004 began planning a pipeline through the Baltic Sea to Germany (the North European gas pipeline; NEGP) that – like the Blue Stream pipeline, which runs through the Black Sea to Turkey and has been in operation since 2002 – avoids transit countries altogether. But even if the Baltic Sea pipeline is completed as planned in 2010, it will at best reduce Gazprom’s dependency. In the year 2005, 73 per cent of Russian natural gas was piped to Central and Western Europe (excluding Finland) through Ukraine. Even after the Baltic pipeline’s completion, Ukraine will still be in a position to control approximately 66 per cent of Russia’s export capacity to Central and Western Europe (see Table 2).

Since Gazprom will continue to be highly dependent on Ukraine as a transit country, more conflicts

Table 1: Gazprom’s prices for natural gas produced by the company itself (US\$ per 1000m³)

	2005	2006
CIS		
Ukraine	50	230
Belarus	47	47
Georgia	68	110
Azerbaijan	60	110
Armenia	56	110
Estonia, Latvia, Lithuania	85–95	120–125
Moldova	80	160
Russia		
Average domestic price	38	46
Europe		
Average price for Western Europe	174	250
Germany	200	n. a.
Poland	120	n. a.
Turkey	75	n. a.

Source: Roland Götz, SWP Aktuell No.3, www.swp-berlin.org

like the January 2006 gas dispute seem inevitable. While the international public has largely forgotten the last interruption of natural gas supplies to Ukraine in the early 1990s, the events of January 2006 have created sustained international interest and triggered a discussion on energy security in Europe. Primarily, this appears to be the case because this time, influential gas consumers such as Germany also noticed a pressure drop in their pipelines. At the beginning of 2004, when only Poland and the Baltic states were affected by a disruption of supplies from the Yamal-

Table 2: Gazprom’s export routes (in bn. m³)

Pipeline	Route	Capacity 2005	Capacity 2010
“Brotherhood”/“Union” (Soviet pipeline network)	Russia – Ukraine – Central Europe	130	130
“Northern Light” (Soviet pipeline network)	Russia – Belarus – Ukraine – Central Europe	25	25
Trans-Balkans (Soviet pipeline network)	Russia – Ukraine – Balkan countries	20	20
Finland Connector (Soviet pipeline network, expanded in 1999)	Russia – Finland	20	20
Yamal-Europe (in operation since 1999)	Russia – Belarus – Poland – Western Europe	28	28
“Blue Stream” (in operation since 2002)	Russia – Black Sea – Turkey	16	16
Baltic Sea pipeline (operation planned for 2010)	Russia – Baltic see – Germany	—	28
Total capacity		239	267

Europe pipeline, the international reaction was negligible.

Gazprom is and remains dependent on transit states, especially Ukraine. The relationship between the company and the transit states is, however, characterized by recurrent conflicts. The fear in Europe is that these conflicts could threaten Europe's supply of natural gas.

Gazprom and international gas consumers

At the international level beyond the CIS, there is no discernible mutual influence between Gazprom's strategy and Russian foreign policy. In this area, Gazprom pursues an independent policy that is in line with the market, and seeks cooperation with transit and customer states in Western Europe. The company's activities are increasingly geared towards international business practices and do not differ significantly from those of other energy companies operating on the international markets. The Russian government's support for the company in this sector is limited to creating favorable framework conditions, as is customary in Western countries as well.

Especially during the early 1990s, on the other hand, Gazprom's company policy in the Central and Eastern European states of the former Council for Mutual Economic Assistance (COMECON) was highly ambivalent. The company's modus operandi vacillated between the methods used in dealings with former Soviet states on the one hand, and recognition of customary international norms in dealings with Western business partners on the other. Gazprom's conduct towards most of these countries has been largely in line with international standards since the beginning of their EU membership negotiations, or at the latest since the date of their EU accession. One distinctive legacy of the previous era is the harsher tone that prevails in negotiations between Gazprom and the new EU members due to the suspicions harbored against Gazprom in these states, especially in Poland (see Table 3).

Taking into account the events in Ukraine in January 2006, the question arises whether such suspicions may also be appropriate in other consumer countries. "Although the natural gas affair damaged the Kremlin's image, Gazprom's actions – when regarded dispassionately – gave no reason to question the company's reliability as a gas supplier. The very fact that the authorities were obliged to reverse their decision to cut off gas supplies to Ukraine clearly shows that fiddling with the gas tap is not a real policy option for Russia. The Russian side cannot seriously blackmail either the transit states or the end custom-

Table 3: Natural gas imports from Russia 2004

	Imports from Russia (bn. m ³)	Percentage of total imports
EU-25		
Estonia	0.9	100%
Finland	4.3	100%
Latvia	1.5	94%
Lithuania	2.9	94%
Hungary	9.3	85%
Greece	2.2	80%
Slovakia	5.8	80%
Austria	6.0	77%
Czech Republic	6.8	69%
Poland	6.3	69%
Germany	37.3	41%
Italy	21.6	35%
France	13.3	30%
CIS		
Moldova	2.7	100%
Azerbaijan	4.9	89%
Belarus*	10.2	52%
Ukraine*	34.3	50%
Other countries		
Serbia	2.3	100%
Bulgaria	3.1	100%
Romania	4.1	70%
Turkey	14.5	65%

* Not included are imports from Central Asia through Russia.
Source: Roland Götz, SWP Aktuell No.3,
www.swp-berlin.org

ers in Europe, because it is fundamentally dependent on both." (Roland Götz cited from Ukraine-Analyse no. 2/2006).

The CIS states and the Eastern European EU members, especially, are highly dependent numerically on Russian natural gas (see Table 3). The Western European states' reliance on Russia is fairly low by comparison, especially when European domestic energy extraction is taken into account. Even Germany, by far the largest consumer of Russian natural gas in Western Europe, has managed to keep the Russian share in its overall gas consumption fairly stable at approximately one-third since the 1970s.

Nonetheless, further geographic diversification of energy supplies should not be neglected as an instrument of energy security. This is the purpose of a num-

ber of current projects, such as pipelines from North Africa, the “Nabucco” pipeline running from the eastern border of Turkey to southern Europe, and the construction of further terminals for liquefied natural gas.

Conclusion

On the one hand, Gazprom aims for increasing integration into the world markets, while on the other it seeks to consolidate its dominant monopoly position in the opaque markets of the CIS. The company limits competition on the post-Soviet gas market and acts as sole purveyor of natural gas from Russia and Central Asia on the world markets. By buying comparatively cheap natural gas in Central Asia, the company can make substantial profits from selling Russian gas at significantly higher prices in Europe. This is also the ulterior aim of attempts to regain export pipelines that were inherited by the successor states of the Soviet Union. This strategy, which is entirely sensible from the company’s point of view, enjoys the support of the Kremlin.

Within the CIS, the goals of official Russian foreign policy and Gazprom’s company interest largely coincide. As a rule, therefore, Gazprom’s activities meet with no resistance from state authorities. However, the Russian government is usually not able to offer direct support for company policy; nor is such cooperation pursued at the international level, beyond the former Soviet Union, by either of the two parties.

Therefore, Russian foreign policy is only instrumentalized by Gazprom to a very limited degree, and there are only isolated instances of Gazprom serving as a tool of Russian foreign policy.

Gazprom’s strategy within the CIS is fundamentally incompatible with the EU’s energy policies in terms of competition and non-discrimination. Consequently, Russia has not yet ratified the EU Energy Charter, which is based on these ideas. However, applying the Energy Charter to the territory of the CIS would offer an opportunity to resolve conflicts, such as the January 2006 Russian-Ukrainian gas dispute, long before they escalate to a stage with far-reaching consequences. This, however, would imply that Russia would surrender its dominance in energy politics.

Despite these contradictions, Gazprom has proven to be a reliable supplier of natural gas to the EU. But even if Gazprom does not per se constitute a risk factor for the energy security of the EU and Germany, they would nevertheless be well advised to continue their current diversification efforts, since technical difficulties, for example, can never be excluded. An intensification of energy ties with Russia, as pursued by Germany with its Baltic Sea gas pipeline project, is not advisable for the EU. And Germany should not be tempted by this deal to increase the share of Russian gas in its overall energy supply to significantly more than one-third.

Translation from the German: Christopher Findlay

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Suggested Reading:

- Andreas Heinrich: *Between a Rock and a Hard Place: The Energy Sector in Central and Eastern Europe*. In: Kari Liuhto/ Zsuzsanna Vincze (eds.): *Wider Europe*. Tampere: Esa Print 2005, S. 457–490.
- Jonathan Stern: *The Russian-Ukrainian gas crisis of January 2006*. Oxford: Oxford Institute for Energy Studies 2006.

Tables and Diagrams

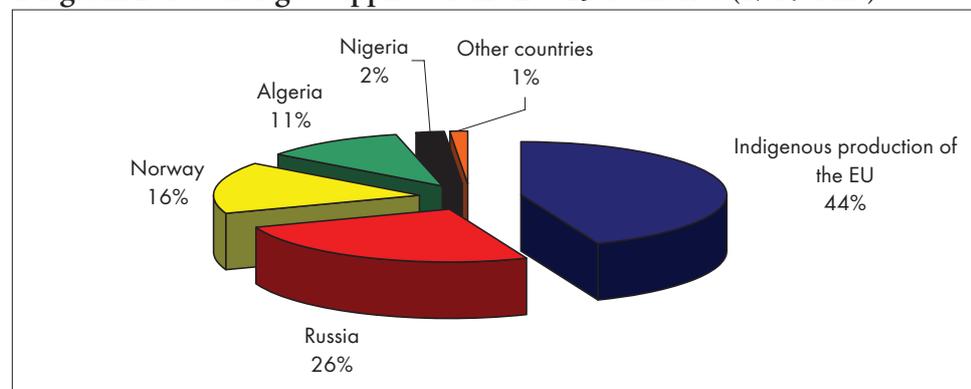
Russian Natural Gas Exports in Figures

NB: Diagram 1 and Tables 1 to 3 are included in the analysis by Andreas Heinrich.

 Table 4: Gazprom's natural gas exports (in bn. m³)

	1999	2000	2001	2002	2003	2004
To Western Europe (including Turkey)	88.5 (50.9%)	90.4 (52.0%)	86.3 (51.8%)	87.1 (51.6%)	89.0 (50.7%)	101.9 (52.8%)
Germany	34.9	34.1	32.6	31.5	29.6	36.1
Italy	19.8	21.8	20.2	19.3	19.7	21.6
France	13.4	12.9	11.2	11.4	11.2	13.3
Austria	5.4	5.1	4.9	5.2	6.0	6.0
Turkey	8.9	10.2	11.1	11.8	12.9	14.5
Finland	4.2	4.3	4.5	4.6	5.1	5.0
To Central and Eastern Europe	38.3 (22.0%)	39.9 (23.0%)	40.0 (24.0%)	41.5 (24.6%)	43.8 (25.0%)	38.6 (20.0%)
Czech Republic	7.8	7.5	7.5	7.4	7.4	6.8
Slovakia	7.5	7.9	7.5	7.7	7.3	5.8
Poland	6.1	6.8	7.5	7.2	7.4	6.3
Hungary	7.4	7.8	8.0	9.1	10.4	9.3
Bulgaria	3.2	3.2	3.3	2.8	2.9	3.0
Romania	3.2	3.2	2.9	3.5	5.1	4.1
To the former Soviet Union	47.2 (27.1%)	43.4 (25.0%)	39.6 (23.8%)	42.3 (25.0%)	42.6 (24.3%)	52.5 (27.2%)
Ukraine	29.6	27.2	21.9	25.9	25.0	34.4
Belarus	12.2	10.8	11.6	10.2	10.4	10.2
Moldova	2.1	1.8	2.1	2.1	2.2	1.8
Baltic states	3.2	3.6	k. A.	4.1	k. A.	5.3
Total exports	174.0	173.7	166.5	168.9	175.5	193.0

Source: Company data

 Diagram 2: Natural gas supplies of the EU-25 countries (474.94 m³)


Source: BP Statistical Review of World Energy 2005, p. 27–28; author's calculations.

Documentation

The Changing Structure of the Russian Oil and Gas Industry

When the socialist planned economy came to an end, the Russian oil industry was organizationally separated from the gas industry. The entire gas industry was combined in the Gazprom company. The oil industry, on the other hand, was split up in the first half of the 1990s into a total of 13 vertically integrated companies, three of which were privatized immediately; by 2002, because of mergers and further privatizations, 8 vertically integrated companies remained, of which only three were state-owned.

Because they had little access to natural gas pipelines, Russian oil producers were usually forced to burn associated natural gas. Only when Gazprom became dependent on additional suppliers because its own production was too low were oil companies and independent natural gas producers able to gain access to the market. As a result, Gazprom's share in Russian natural gas production dropped from 94% in 1998 to 87% in 2004.

Since 2004, the organizational structure of the oil and gas industry is changing yet again because of the Yukos affair, leading to a renewed increase of state shares in the industry and concentrated efforts to allow Gazprom to enter the oil industry. Major developments of this process are the take-over of Yukos' largest production unit by the state-owned company Rosneft and the acquisition of Sibneft by Gazprom. This acquisition means that the gas corporation will become the fifth largest Russian oil producer. As a result, companies under the control of the Russian government have increased their share in the production of Russian oil from 5% in 2004 to 26% at present. Although neither Gazprom nor Rosneft (following its planned initial public offering in summer 2006) are completely state-owned, the state controls these companies' management teams via its majorities on the supervisory boards.

Table 1: Gazprom's share in Russian natural gas production (in bn. m³)

	1998	1999	2000	2001	2002	2003	2004
Russia	590.7	590.8	584.2	581.5	594.9	620.3	625.0
Gazprom	553.7	545.6	523.2	511.9	521.9	540.2	545.1
Gazprom in %	93.74	95.35	89.56	88.03	87.73	87.09	87.22
Oil companies	29.0	30.3	32.4	32.3	33.2	42.3	39.8
Independent gas producers	-	14.1	25.2	35.5	41.3	40.2	40.1

Sources: International Energy Agency 2002: 137; Landes et al. 2004: 48–49; UFG, Russia Morning Comment, 26 January 2005: 4; NewsBase, FSU Oil & Gas Monitor, No. 9, 9 March 2005; company data.

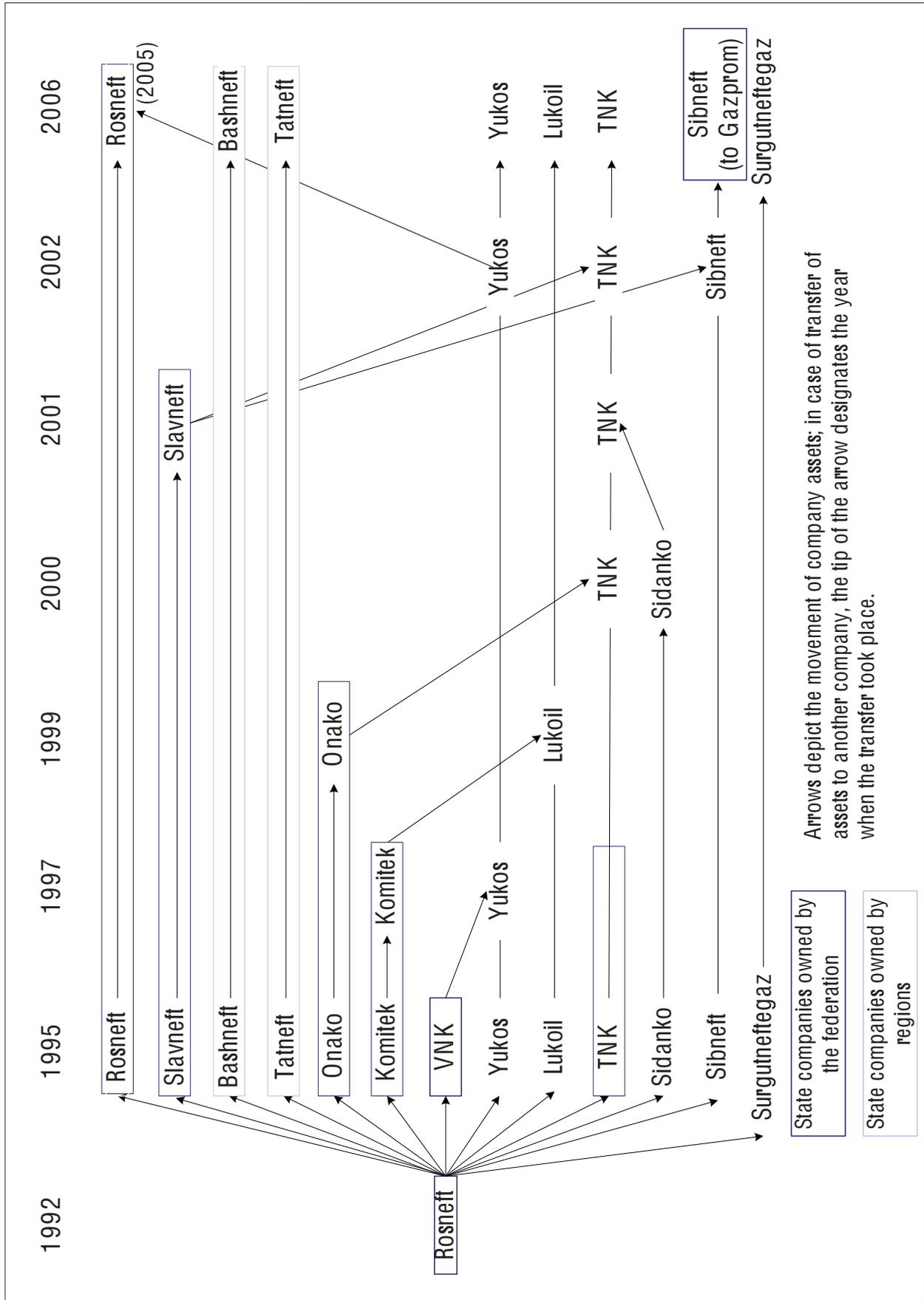
Table 2 : State companies' share in Russian oil production (in mn. t)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Rosneft	12	13	13	13	12	12	14	15	16	19	22	75
Tatneft	24	25	25	25	24	24	24	25	25	24	25	25
Bashneft	18	17	16	15	13	12	12	12	12	12	12	12
Slavneft	13	13	13	12	12	12	12	15	(to Sibneft and TNK)			
Onako	7	7	8	7	8	7	8	(to TNK)				
Komi-TEK	5	6	8	9	9	(to Lukoil)						
TNK	25	23	21	21	20	20	36	41	38	43	70	75
VNK	11	11	11	(to Yukos)								
Lukoil	57	53	51	53	54	62	62	63	76	82	84	86
Yukos	37	36	35	47	45	45	50	58	70	81	86	23
Sidanko	26	23	21	20	20	20	11	16	(to TNK)			
Sibneft	23	20	19	18	17	16	17	25	26	31	34	45
Surgutneftegaz	34	33	33	34	35	38	41	44	49	54	60	64
Others	27	27	24	34	38	37	30	33	69	75	66	65
Total	318	307	301	306	303	305	323	348	380	421	459	470
Of this state companies	257 (81%)	247 (80%)	115 (38%)	102 (33%)	78 (26%)	67 (22%)	70 (22%)	67 (19%)	53 (14%)	55 (13%)	59 (13%)	157 (34%)
Of this federation	210 (66%)	199 (65%)	66 (22%)	53 (17%)	32 (11%)	31 (10%)	34 (11%)	30 (9%)	16 (4%)	19 (5%)	22 (5%)	120 (26%)
Of this regions	47 (15%)	48 (16%)	49 (16%)	49 (16%)	46 (15%)	36 (12%)	36 (11%)	37 (11%)	37 (9%)	36 (9%)	37 (8%)	37 (8%)

Data for state companies are color coded, dark blue ■ for companies owned by the federation and light blue ■ for companies owned by regional governments. The sums do not add up due to rounding errors.

Source: Energy Ministry of the Russian Federation; Info TEK; company data.

Diagram 1: The process of consolidation in the Russian oil industry 1992–2006



Arrows depict the movement of company assets; in case of transfer of assets to another company, the tip of the arrow designates the year when the transfer took place.

State companies owned by the federation

State companies owned by regions

Analysis

Gazprom's Role in Regional Politics: The Case of the Yamalo-Nenets Autonomous Okrug

By Julia Kuszniir, Research Centre for East European Studies, Bremen

Summary

The Yamalo-Nenets Autonomous Okrug in northwestern Siberia is Gazprom's most important prospecting region, representing more than 80 per cent of the corporation's total extraction. Gazprom therefore has considerable influence in the region. Its tax payments now amount to 70 per cent of the region's budget revenues. The company has also become involved politically. Gazprom's representatives hold 36 per cent of the votes in the regional parliament. Over the past years, the company has increasingly tried to assert control over regional politics.

Introduction

The Yamalo-Nenets Autonomous Okrug in northwestern Siberia is Gazprom's most important prospecting region, representing more than 80 per cent of the corporation's total extraction. Tax revenues from local natural gas and oil companies cover 90 per cent of the region's budget. Approximately 60 per cent of the tax revenue is derived from Gazprom subsidiaries, while another 10 per cent comes from the oil company Sibneft, which is now also part of Gazprom.

Gazprom is also represented in regional politics. On the one hand, the company is closely linked to the municipal administrations where gas is extracted; on the other hand, Gazprom is directly represented through its own deputies in the regional parliament, who held 28.8 per cent of the seats during the 2000-2005 election period. Gazprom (including Sibneft) has managed to increase its representation in the new regional parliament to 36.4 per cent; as a rule, the company is represented in parliament by executive managers of its regional subsidiaries.

Gazprom's entry into regional politics

Gazprom's engagement in Russian regional politics began with the Russian parliamentary elections in 1993, in which the candidate supported by Gazprom in the Yamalo-Nenets Autonomous Okrug failed to win a seat. His opponent won the constituency by sharply criticizing Gazprom after the gas company had defaulted on payment of wages and social contributions. This defeat at the national polls was widely regarded as a poke in the eye for Gazprom from the regional electorate. The Gazprom management reacted by engaging more actively in regional politics.

The replacement of the regional governor at the

behest of President Boris Yeltsin was regarded as the point of departure for this new engagement. Gazprom supported the new governor, Yuri Neelov, and he was voted onto the company's executive board. Neelov was also backed by Gazprom and the local politicians associated with the company in the gubernatorial elections of 1996. He won the ballot with 69 per cent of votes cast.

The regional government and Gazprom also cooperated effectively in the economic sphere. The two parties concluded their first general partnership agreement in February 1995. Furthermore, from January 1997 onwards, their financial relations (particularly Gazprom's tax payments) were governed by annual agreements. Deliveries of natural resources were accepted in lieu of payment. This procedure gave rise to a whole range of dubious deals. For example, the Itera company was integrated in the 1997 agreement. Gazprom supplied the region with natural gas, which was offset against the corporation's accrued taxes at wholesale rates and not at the market price. The regional administration sold the gas to Itera at the same price, albeit in contravention of Russian law.

Despite this preferential treatment, Itera accrued tax arrears. Instead of collecting this tax claim, the regional administration assigned the debt to Mezhhregiongas, a Gazprom subsidiary. Mezhhregiongas, in turn, settled the debt with gas deliveries that were again resold to Itera at preferential rates. As a result, Gazprom accumulated a sizeable back tax that amounted to approximately 11 billion rubles (at the time, about US\$500 million) by the end of the 1990s.

At the same time, a change in legislation allowed Gazprom to credit the assets of its subsidiaries to the company's headquarters in Moscow. This meant that

taxes on the assets of subsidiaries in the Yamalo-Nenets Autonomous Okrug no longer contributed to the local budget, but went straight to the municipal budget of Moscow. The noticeable reduction of Gazprom's payments to the regional budget caused a falling-out between the company and the local administration. Additionally, Gazprom's decision-making processes were centralized as part of a corporate reorganization, leaving the managers of subsidiary companies with less room for maneuver in their relations with the regional administration.

Regional politics without Gazprom?

In order to pressure Gazprom, the regional governor stated publicly that licenses for natural gas fields would only be awarded as part of public tenders, since "there are other companies besides Gazprom that would like to work actively in the region".¹ As a result of this conflict, Neelov failed to be reelected to the Gazprom board in 1999.

The regional administration responded to the falling-out with Gazprom by cooperating with oil companies and small independent natural gas companies in the region. In this way, it was hoped, a counterbalance to Gazprom could emerge that would reduce the region's economic dependency and help it win back political maneuverability.

Vice governor Iosif Levinson played a key role in developing regional economic concepts to support independent gas producers. Before entering politics in 1996, Levinson was the head of regional geological company Purneftegazgeologia, which was in charge of exploration work and therefore was in possession of information on the gas deposits in the region. Later, the company was able to secure licenses for several natural gas fields with the help of Levinson, who as vice governor was in charge of licensing. Levinson was the biggest shareholder in the company, and in 2001, after it merged with Novatek, he became a major shareholder in the new corporation. The regional administration then began to nurture Novatek by giving it licenses and tax breaks, for example an exemption from tax on assets. As a result, the share of independent producers

in regional extraction rose from 2 per cent at the end of the 1990s to 13 per cent in 2001.

In 1999, the regional administration concluded initial partnership agreements with the oil companies operating in the region, namely Rosneft and Sibneft. The most significant provisions on the part of the administration concerned guaranteed tax relief and preferential treatment in the allocation of extraction licenses, while the companies agreed to take on economic and social responsibilities in the region. The agreements were concluded for a four-year period and subsequently extended. The oil companies' parliamentary representatives actively participated in codifying these agreements into regional legislation.

Rosneft in particular benefited from this cooperation. The company was able to vastly expand its oil extraction in the region and to make inroads into the gas production business. In return, the company paid its taxes on time and invested in the social infrastructure of the region. Thus, in 2003, approximately 60 per cent of Rosneft's investments went to the Yamalo-Nenets Autonomous Okrug. The regional administration also managed to persuade other oil companies to increase their engagement in the region, for example Lukoil, TNK, and Yukos, all of which in 2001 stated their interest in acquiring licenses for new gas fields.

Neelov's victory at the 2000 gubernatorial elections, with 88 per cent of the ballot, proved that he had managed to secure a power base that was independent of Gazprom. His election campaign was supported by the independent gas producers and oil companies in the region. There were only two nominally independent candidates to challenge Neelov, both of whom were de facto associated with him. In the following years, however, the federal center and Gazprom incrementally raised the pressure on the regional administration.

Pressure on the regional administration

In the same year, Gazprom began to expand its share of regional production through company takeovers. The upshot of this was that Novatek remained the only independent gas producer in the region. The position of oil companies in the region was also weakened. Rosneft, controlled by the federal government, was not able to establish a permanent independent position in the region. Gazprom took over Sibneft in 2005, thus neutralizing the second largest oil company in the region. As a result, the regional economy and therefore also the regional budget were once again completely dependent on Gazprom. This was also seen in the fact that the share of tax payments coming directly or indirectly from Gazprom to the regional bud-

¹ Under a federal decree of June 1992, the federal government and the administration of the Yamalo-Nenets Autonomous Okrug transferred the right to develop reserves of gas and gas condensate in the Nadym-Pur-Tazovski and Yamal regions to Gazprom. This decision was made without any prior auction or call for tenders, and gave the company not only the rights for exploring fields that it already owned, but also the development rights for as-yet untapped fields with very great potential. This was a major obstacle to future competition, despite the federal legislation „On Natural Resources“, which supposedly facilitated competitive access to the Russian gas fields.

get increased to over 70 per cent.

Simultaneously, the federal center weakened the regional administration's position by backing the merger of the autonomous okrugs with Tyumen Oblast. This meant that the okrug regional administrations were forced to cede part of their authority to the government of Tyumen Oblast. Furthermore, the regional administration of the Yamalo-Nenets Autonomous Okrug was weakened by the general restrictions that President Putin imposed on the regions. Thus, the reorganization of corporate taxation and of licensing rules deprived the regional government of important instruments in its negotiations with the oil and natural gas corporations.

Neelov came under further pressure after the president reserved the right to nominate governors himself in September 2004, since his gubernatorial term was due to expire in early 2005. In order to secure Putin's support for his nomination, Neelov had to make significant concessions. Specifically, he was forced to dismiss several members of his administration, including vice governor Levinson. In the subsequent elections to the regional parliament, Gazprom's representatives were able to increase their share of votes from 13 per cent to 36 per cent.

Conclusion

The interaction of political and economic players in the region is thus determined by the relationship between the governor and Gazprom. Between 1994 and 1999, the governor cooperated with Gazprom. The company supported the election campaign of governor Neelov, who was elected as a Gazprom board member. In return, Gazprom was formally granted significant tax breaks, but only fulfilled a fraction of its remaining payment obligations to the regional budget and in the social sphere. Additionally, the gas company pooled its decision-making processes in

Moscow, thus reducing its readiness to negotiate with the regional political elites. This conflict came to a head at the end of the 1990s.

In the next phase, from 2000 to 2005, Neelov tried to cooperate with other companies in order to create a counterbalance to Gazprom and regain political and economic maneuverability. The regional administration started issuing licenses for natural gas fields via open calls for tenders, thus fostering the independent gas producers. Although governor Neelov lost his seat on Gazprom's supervisory board, his deputy joined the boards of several production companies that were competing with Gazprom. Additionally, the administration concluded partnership agreements with the oil companies in the region that offered tax breaks as an incentive for increased output.

The result was an increase in the importance of independent gas and oil companies for the region, which thus managed to reduce its dependency on Gazprom. Unlike Gazprom, however, the other corporations generally met their commitments in terms of paying taxes and investing in social programs. In this way, governor Neelov managed to be reelected even without the support of Gazprom.

Gazprom's cooperation with the federal center against the regional political elites did, however, eventually lead to a significant weakening of the latter. The loss of authority in the areas of taxation and licensing, and especially the planned merger with Tyumen Oblast, increasingly reduced the freedom of action of the regional political elites. Since the nomination of governors by the Russian president was introduced in 2004, Neelov has been forced to dismiss several close advisors in order to secure his own position. Conversely, Gazprom, which has expanded its control of the regional economy over the past years, can be expected to regain influence.

Translation from the German: Christopher Findlay

About the author

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Analysis

Do Russian Liberals Stand a Chance?

By Elfie Siegl, Berlin and Moscow

Summary

The crisis of the Russian liberal democrats has become manifest since they failed to win seats in parliament in December 2003. The reasons include their proximity to power, the divide between the liberal political elite and the people, the fragmentation of the democratic movement, overreaching ambition, and competition among liberal leaders. Veteran democratic politicians have been discredited and worn out, while the generation of their successors is as yet too inexperienced. Against this backdrop, the parliamentary elections of 2007 and the presidential elections of 2008 could represent an existential threat to Russia's liberal democrats. The future of democrats in Russia will depend to a large extent on whether they themselves are able to agree on a shared party platform and on a common leadership in the coming months. So far, only incipient signs of consolidation are apparent. Behind the scenes, rivalries and machinations continue unabated.

Fear of terrorism and revolution

Russian liberal democrats are fundamentally different from their counterparts in the West. They are primarily opposed to the Communist Party in their country, having originated from the "informal" groups and clubs that came into existence during the first years of perestroika. At the time, the members of such movements included dissidents from the Brezhnev era and young intellectuals as well as prominent individuals from the fields of science, literature, and journalism. After the dissolution of the Soviet Union, political parties and electoral blocs emerged, sometimes coalescing around these "informal" groups. For example, in the run-up to the 1993 parliamentary elections, the Yavlinsky-Boldyrev-Lukin bloc was founded, which eventually became the Yabloko Party. Radical reformers such as Anatoly Chubais, who was responsible for the privatization of state property under Yeltsin, and Boris Nemtsov, the young governor of Nizhny Novgorod and later a member of the Russian government, were among the founders of the Union of Right Forces (SPS). In economical terms, the liberal democrats were in favor of developing a market economy in post-Soviet Russia. Politically, their single goal was battling the Communist Party. They spared no means in order to reach that goal. In 1993, when then-president Yeltsin ordered troops to open fire on a parliament dominated by his Communist opponents, they did not oppose these undemocratic measures. In 1996, they manipulated the presidential elections via the media in order to ensure that the physically stricken Yeltsin, and not Communist leader Zyuganov, would win the polls. Subsequently, they first supported Yeltsin's successor, Putin. When his policies began to take on an increasingly authoritarian charac-

ter, they were criticized by individual representatives of the pro-democracy camp; however, no democratic opposition to Putin has emerged.

Furthermore, it is more difficult for the liberal democrats to form such an opposition today than it was in the 1990s, since the Kremlin is doing everything in its power to prevent that from happening, including increasing restrictions on democratic rights and freedoms. Political observers in Moscow invoke the threat of "terrorism" to justify such measures, especially extremism emanating from the Northern Caucasus, which reached an apex in the September 2004 hostage-taking in a school in Beslan, North Ossetia. Another factor is most likely the Kremlin's fear of a Ukrainian-style "Orange Revolution", which could involve a democratic opposition organizing mass protests against the results of forged elections and ultimately taking over power. However, this irrational fear, if it really exists, is more illustrative of ignorance on the part of the Russian leadership about conditions in the country than an indication of an actual threat to the Kremlin in the near future. Unlike in Ukraine in late autumn of 2004, the opposition forces in Russia are fragmented, and their leaders are hamstrung by overreaching ambition, disproportionate self-confidence, and a competitive way of thinking. So far, there is no prospect in Russia of a political personality of Viktor Yushchenko's caliber uniting the democratic camp and possibly leading it to victory. Instead, there is a large number of veteran liberal democratic politicians who like to adorn themselves with two attributes – a party of their own, and presidential ambitions. One of these is Yabloko chairman Grigory Yavlinsky, who once proposed a 500-day program to reform the Soviet economy. He has repeatedly

campaigns unsuccessfully for the presidency, yet has consistently refused to take on real political responsibility. This has not prevented him, however, from courting the various Kremlin leaders for high government appointments. Irina Khakamada, a former vice speaker of the Duma parliament, also harbored ambitions of winning a Kremlin position. After a futile election campaign, she founded the Nash Vybor party. Chubais has for many years been at the helm of Russia's largest government enterprise, electricity giant RAO EES. His detractors claim that he bankrolls the SPS party with company funds. In any case, he operates behind the scenes to ensure that the party does not fall foul of the Kremlin.

A broad variety of democratic parties and groups exists today. These include Yabloko and SPS as well as the Union of the Committees of Soldiers' Mothers of Russia, Garry Kasparov's United Citizens Front, Boris Nemtsov's Committee 2008 (which advocates democratic presidential elections), the Republican Party of independent Duma delegate Vladimir Ryzhkov, several youth organizations, and a couple of human rights groups. SPS and Yabloko have only just begun to work together, joining forces in the December 2005 Moscow city council elections and the regional legislative elections that took place 12 March.

The crisis of Russian liberalism

The crisis of liberalism has come to the fore at least since the December 2003 fiasco, when Yabloko and the SPS both failed to clear the 5 per cent barrier in the state Duma elections – ending the presence of democratic parties in the parliament. Political analyst Lilia Shevtsova offers several reasons for this crisis, including the liberal rhetoric of an illiberal power that allows the Kremlin to semantically dominate the field of liberal democratic politics; the failure of the liberal democrats of the Yeltsin generation to consolidate their position as an opposition to the ruling powers; their ignorance of issues such as justice and equality; and the difficulty of realizing liberty, equality, and justice in a society where liberal reforms have never reached completion and where strong paternalistic structures dominate. Furthermore, Shevtsova is convinced that the geographic territory of Russia is too large for integration into Europe, which might provide a measure of security for a liberal democratic transformation.

Irina Khakamada, on the other hand, believes the reasons for this crisis are to be sought in an estrangement between the political liberal elite and the people. As far as liberal ideas and values are concerned, she says, Russia has experienced a qualitative leap since the 1990s. Post-Soviet citizens have become democrats

and full-fledged liberals, according to Khakamada. However, they have not voted for democratic forces in elections because they blame their leaders, such as Gaidar and Chubais, for the loss of all the privileges they have been deprived of in post-Soviet Russia – social support, guaranteed job security, and free health-care and education. She believes that there is a huge discrepancy in Russia today between the need of society for liberal leaders and the real political liberal elite. Khakamada says that the liberals of the Yeltsin era have reached a historical dead end and that Yabloko and the SPS party were defeated at the last parliamentary elections because they had no answers to the problems of the people. Her view is that the democrats lost Russia because they acceded to the shelling of the parliament in 1993 and because they participated in ballot-rigging in 1996 in order to award Yeltsin an artificial victory. In 1999, they helped to prepare the way for Putin as Yeltsin's successor because they regarded this hitherto unknown lieutenant colonel in the intelligence service as their insurance against subsequent attempts to hold the Yeltsin clan legally accountable for its misdeeds.

Because their policies served the interests of those in power and because of their proximity to the rulers of the Kremlin, liberal democrats in Russia have squandered their credibility as an opposition. Unlike in Ukraine, for example, the most vociferous opposition forces in Russia are not the liberal democrats, but the nationalist and patriot groups. This situation, says political scientist Hans-Joachim Spanger, has been brought about by "political technologies" and Putin's government-controlled democracy, and is the result of a fragmentation of the liberal camp and of a purposeful encouragement of new and old nationalist parties. Among these are the National Bolshevik Party and the "Rodina" bloc. Like the rightwing extremist Liberal Democratic Party (LDPR) of Vladimir Zhirinovskiy, "Rodina" was inspired by the Kremlin. The slogans of this party, such as "Russia for the Russians", "Moscow for the Muscovites", and "Jail the Rich", are enthusiastically embraced by those who feel disappointed and betrayed by the "salon liberals". In the face of increasing xenophobia and neo-Nazi rallies, Nemtsov, too, warns of embryonic fascist tendencies in Russia; however, he wisely keeps silent about one of the main reasons for this phenomenon, namely the failure of the democrats.

No future for the Russian liberals?

The most important question facing the liberal democrats in Russia today is whether or not they will manage to consolidate, that is, to form a com-

mon party and to agree on a joint leadership figure. Political scientists in Moscow, such as Lilia Shevtsova of the Carnegie Moscow Center or Georgy Satarov, who heads the INDEM foundation, are certain that the answer will determine whether the liberals have a future in Russia or will instead disappear from the political landscape. Only little time remains to find solutions: A new Russian parliament will be elected in December 2007 and a new president in March 2008. In the run-up to these polls, the Kremlin has been tightening the political rules of the game: According to the latest version of the law on political parties, a political party must have 50,000 members (up from 10,000) and must be represented in all 88 subjects of the federation in order to be registered. Putin also introduced changes to the electoral law. For example, the majority voting system was abolished, all elections are based on party lists, and the minimum vote barrier was raised from five to seven per cent, while combined party lists were outlawed. One would think that under such conditions, the liberals would be aware of the need to fight for their political survival. The reality, however, is different. It almost appears as if the liberal forces had learned nothing from their previous defeats. For there is still no agreement in sight; rather, quite the opposite is the case – fragmentation and backstage machinations continue. Although Yavlinsky, until recently a strict opponent of party alliances, now says that all efforts for unification must be undertaken in view of the threat to liberals, the bottom line is that talk is cheap. Independent Duma representative Vladimir Ryzhkov says there are many obstacles to unification, most of them related to the need for all party leaders to make sacrifices and be prepared to change their parties as well as themselves. However, he says, people tend towards stagnation; in fact, they love this stagnation, which according to Ryzhkov is the main reason for Russia's ill fortunes. If it was possible to create a united democratic party with an attractive platform and candidates who had not lost the confidence of the public, such a party could well win seats in parliament, Ryzhkov believes.

The electoral potential of democratic voters in Russia, according to surveys, amounts to about 20 per cent of the electorate. This does not mean, however, that all of these 20 per cent would vote against Putin's authoritarian system. Igor Bunin, director of the Center for Political Technologies, remarks scornfully that "the public is content because stability abounds, the economy is growing, and the president is a wonderful person". In the 2003 Moscow city council elections, with a turnout of 60 per cent, 18 per cent of votes were cast in favor of the democratic parties.

Last December, he says, they won 12 per cent with a voter turnout of 35 per cent. According to Bunin, the democrats today have only one goal – to survive politically by securing seats in the new Russian parliament in 2007. However, they will only be able to reach this goal if it suits the Kremlin. The raising of the minimum vote barrier from five to seven per cent, though, indicates to observers in Moscow that the Kremlin only wants two or three major parties in the future State Duma: "United Russia", the Communist Party, and the LDPR.

Olga Kryshchanovskaya, a Moscow sociologist, suspects that the Kremlin might be planning to build up a pseudo-liberal democratic opposition party in order to obstruct the real democrats at the next election. This model has already proven its usefulness: In 1999, the pro-Putin party "Unity" was invented to compete with the Communists, and managed to go from scratch to secure more than 20 per cent of the seats in parliament. In the meantime, it has become the richest and most powerful party in the country.

Liberal competition not welcome

Mikhail Kasyanov has come to the fore as the youngest of the prominent liberal politicians. He served as Putin's prime minister for four years and was forced out of office after daring to criticize the arrest of oil multi-billionaire Mikhail Khodorkovsky in October 2003. Kasyanov has been having trouble with the Kremlin since he publicly announced a few months ago that he might stand as a candidate in the 2008 Russian presidential elections. First, he was threatened with legal action for alleged improprieties in the purchase of a country house. Next, he was prevented from taking over the chair of Russia's oldest, but hitherto irrelevant liberal party, the Democratic Party: The party conference delegates mysteriously split their vote and elected pro-Kremlin "political engineer" Andrei Bogdanov as chairman. Kasyanov was accused of having tried to buy delegates' votes. It appears that the more the Kremlin perceives its potential rivals to be a threat in the 2008 presidential elections, the tougher it cracks down on them even now. Khodorkovsky, who was the richest man in Russia until 2003, was sentenced to eight years in a labor camp in 2005 after signaling his intention to give up his business and enter politics. Baku-born chess grandmaster Garry Kasparov, openly running for president, not only met with obstruction when campaigning on the topic of reforming municipal services, but has also been given to understand that he is not welcome in Russia. Nemtsov, once Yeltsin's designated crown prince, carries the stigma of a traitor to the na-

tion since he became a political counselor to Ukrainian President Viktor Yushchenko. Even if the liberal democrats were able to secure a fair election campaign with equal access to the electronic media, their main problem would remain the lack of charismatic leaders in their midst. Some are “worn out”, while others do not have enough experience yet. However, Russia

needs liberalism both for political and for economic reasons. Mark Urnov, the dean of the Political Science department at the Moscow Higher School of Economics, thinks that unless Russian society adopts the basic principle of political competition, it will not manage to build an efficient economy.

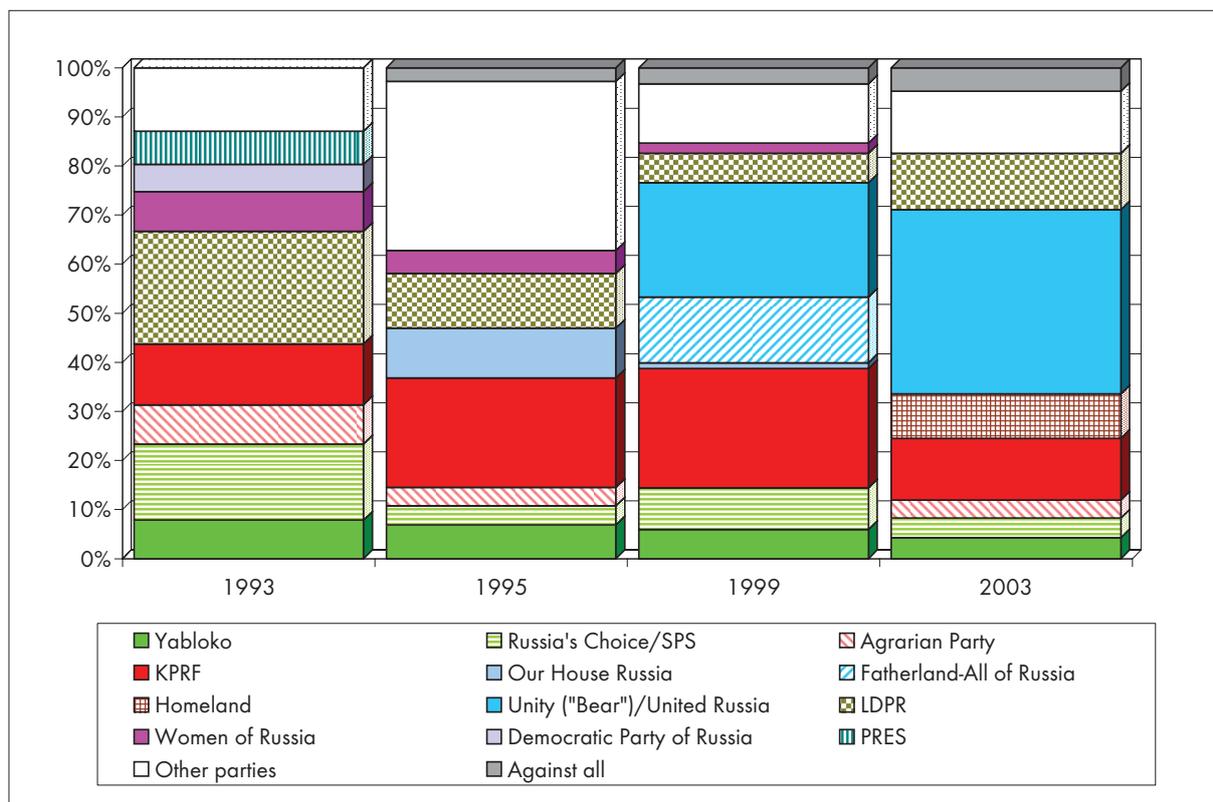
Translation from the German: Christopher Findlay

About the author:

Elfie Siegl served for many years as a correspondent for radio and print media in Moscow; today, she is a freelance journalist working in Berlin and Moscow.

Tables and Diagrams

**Results of the Duma Elections 1993, 1995, 1999 and 2003
(according to party lists)**



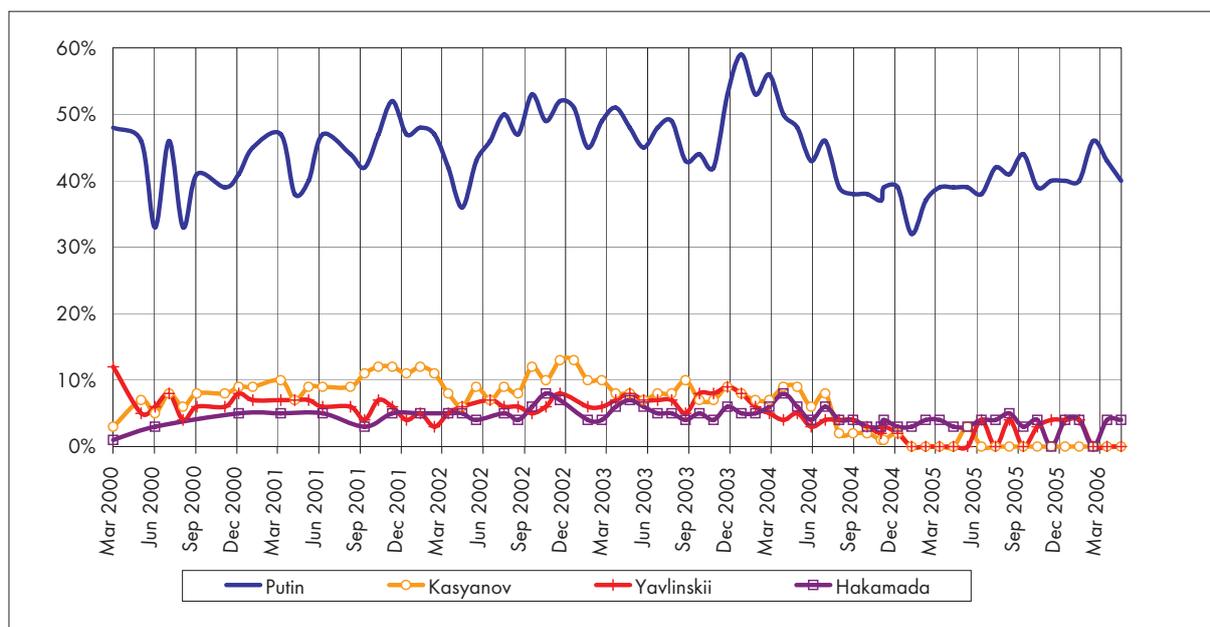
Parties and electoral unions				Election results according to lists			
1993	1995	1999	2003	1993	1995	1999	2003
Agrarian Party	Agrarian Party		Agrarian Party	7.99%	3.78%	--	3.64%
	Our House Russia	Our House Russia		--	10.13%	1.20%	--
Yabloko				7.86%	6.89%	5.93%	4.30%
Russia's Choice	Russia's Democratic Choice-United Democrats	Union of Right Forces (SPS)	Union of Right Forces (SPS)	15.51%	3.86%	8.52%	3.97%
Democratic Party of Russia				5.52%	--	--	--
KPRF	KPRF	KPRF	KPRF	12.40%	22.30%	24.29%	12.61%
LDPR	LDPR	Bloc Zhirinovski	LDPR	22.92%	11.18%	5.98%	11.45%
PRES				6.73%	--	--	--
Women of Russia	Women of Russia	Women of Russia		8.13%	4.61%	2.05%	--
		Fatherland-All of Russia	United Russia	--	--	13.33%	37.57%
		Unity ("Bear")		--	--	23.32%	
			Homeland	--	--	--	9.02%
Against all / Other parties	Against all lists	Against all lists	Against all lists	12.94%	2.77%	3.30%	4.70%
	Other parties	Other parties	Other parties		34.48%	12.07%	12.73%
Voters' turnout				54.37%	64.38%	60.43%	55.60%
Parties below the 5% limit				12.94%	49.50%	18.62%	29.34%
Yabloko+SPS				23.37%	10.75%	14.45%	8.28%

Source: *Kommersant*, 21 December 1999, p. 1; http://www.fci.ru/gd99/vb99_int/default.htm of 23 December 1999; *Byulleten Tsentralnoi isbinatelnoi komissii Rossiiskoi Federatsii*, 1994. No. 1 (12). p. 34–80; http://www.izbirkom.ru/izbirkom_protokols/sx/page/protokol2 of 9 December 2003.

Trust in Politicians: Putin and the Leaders of the Liberals

Source: Data on the website of the Levada Center (formerly VTsIOM): www.wciom.ru and www.levada.ru

Which politician do you trust? (Period from March 2000 to April 2006)



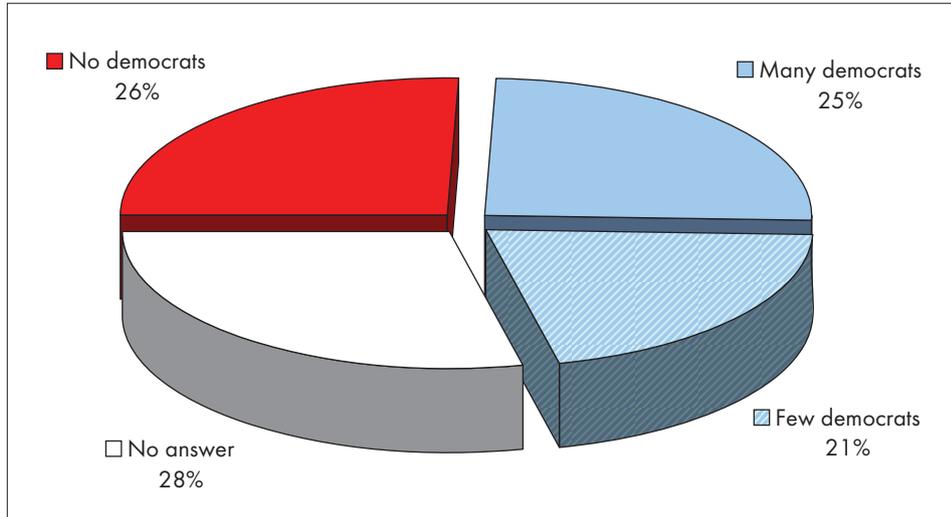
Are there Democrats in Russia?

The view of the Russian public on the development of democratic parties, December 2005

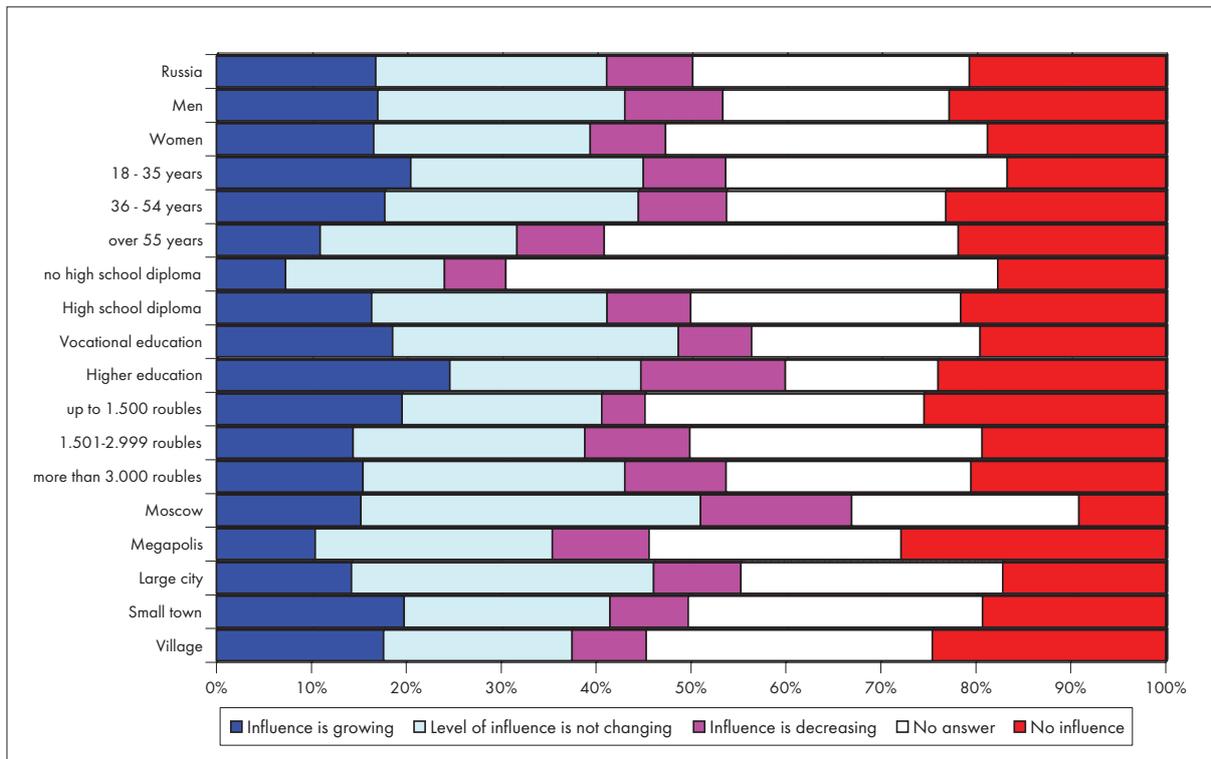
Source: opinion survey conducted by the "Public Opinion Foundation" (FOM) on 24/25 December 2005

<http://bd.fom.ru/zip/tb0552.zip>

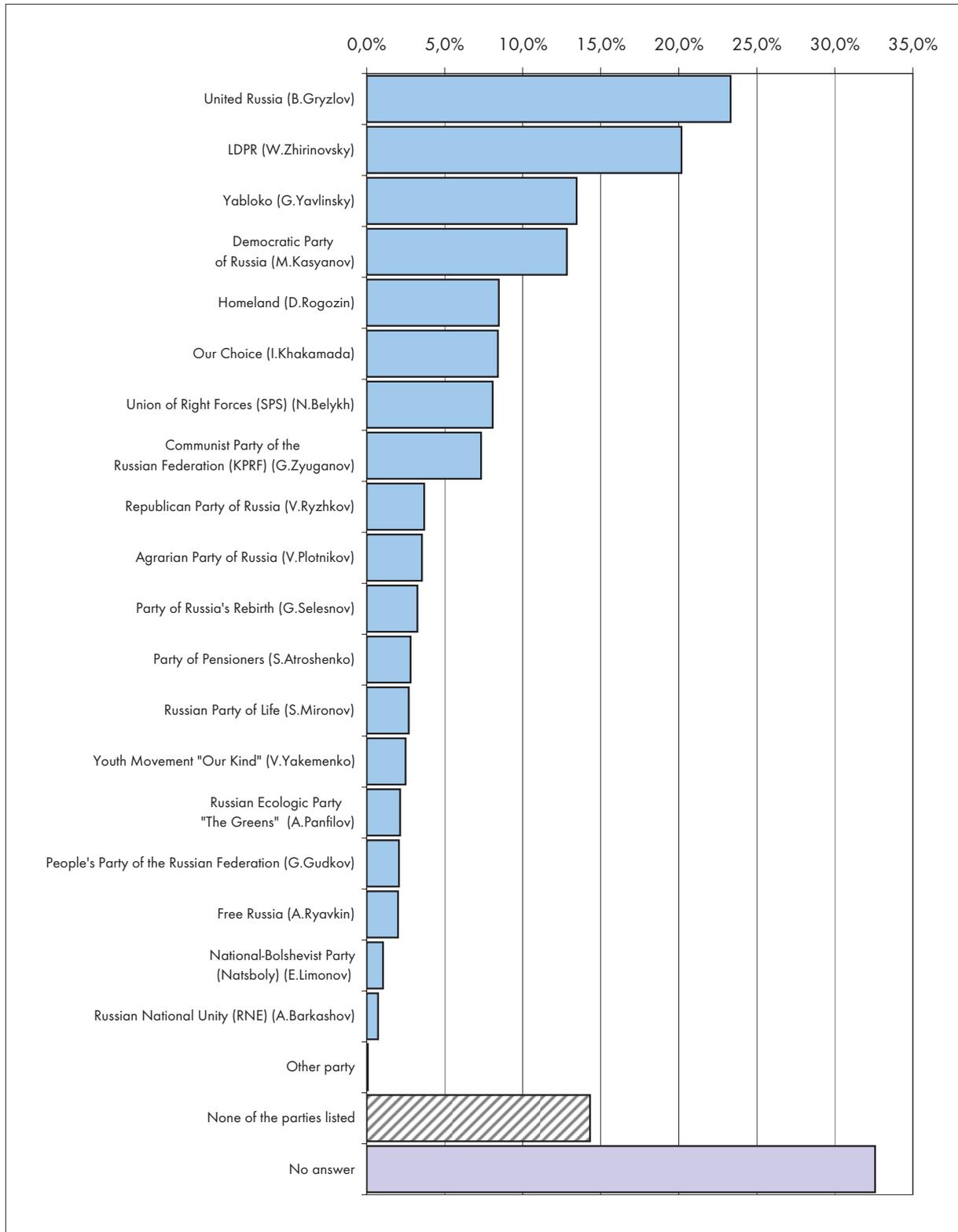
Are there at present many democrats among Russian politicians?



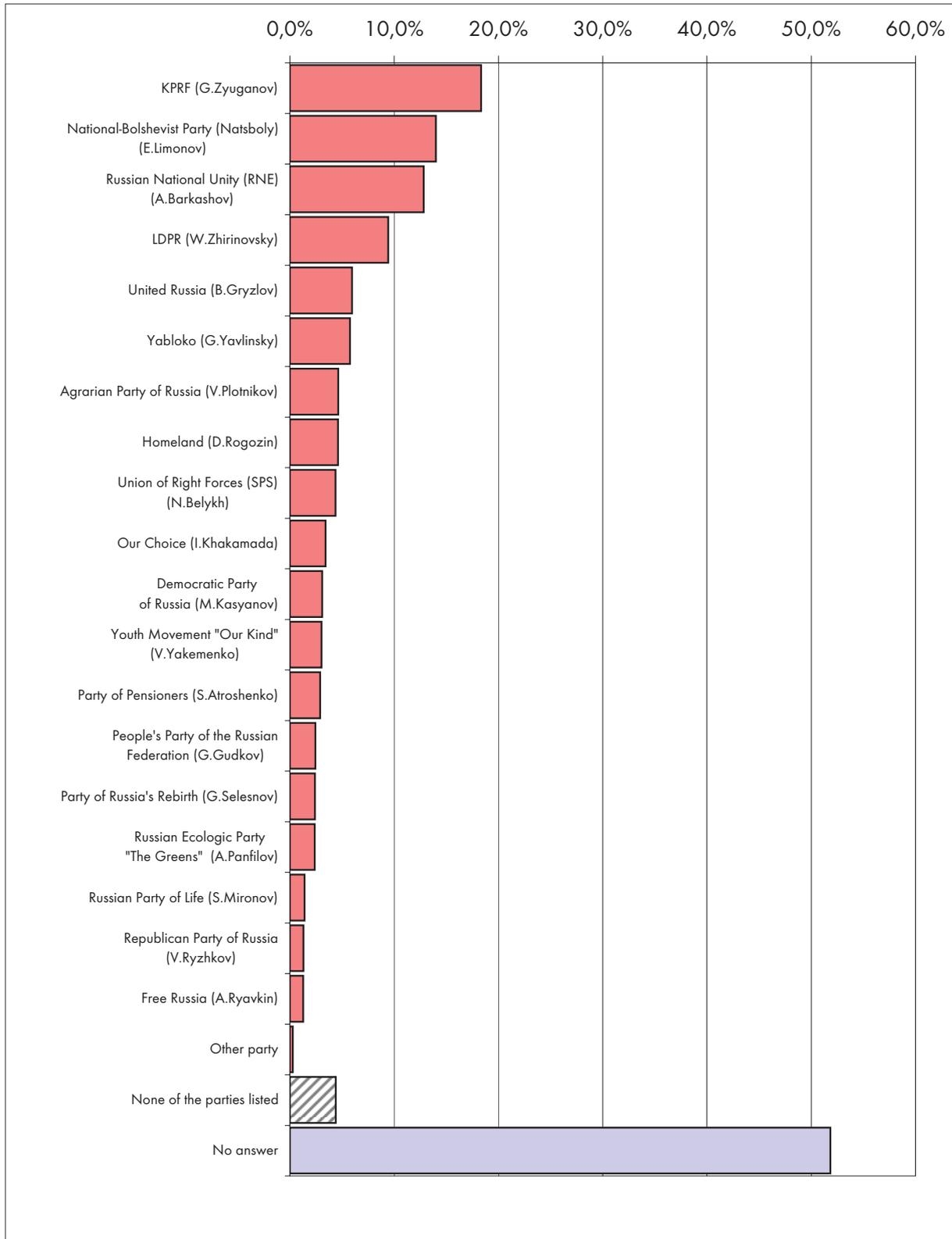
Do the Russian democrats exert influence in the country?



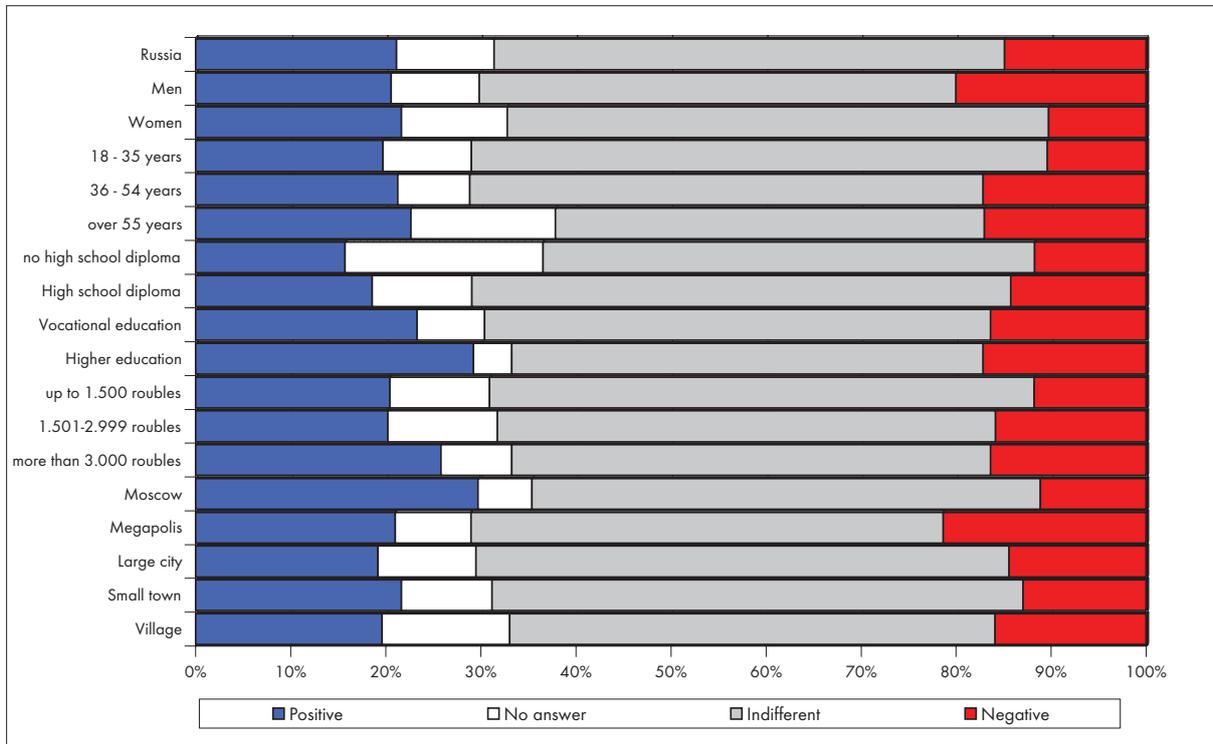
In your opinion, which Russian party represents democratic ideas?



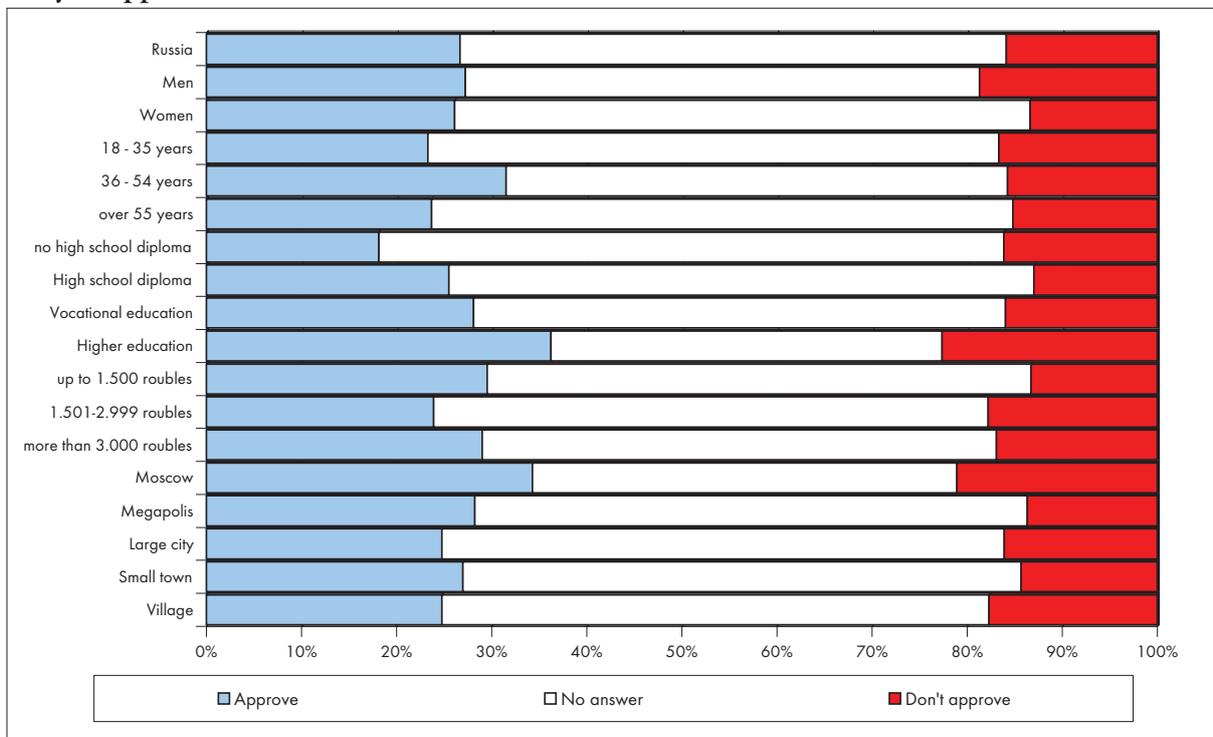
In your opinion, which of the Russian parties listed below represents undemocratic ideas?



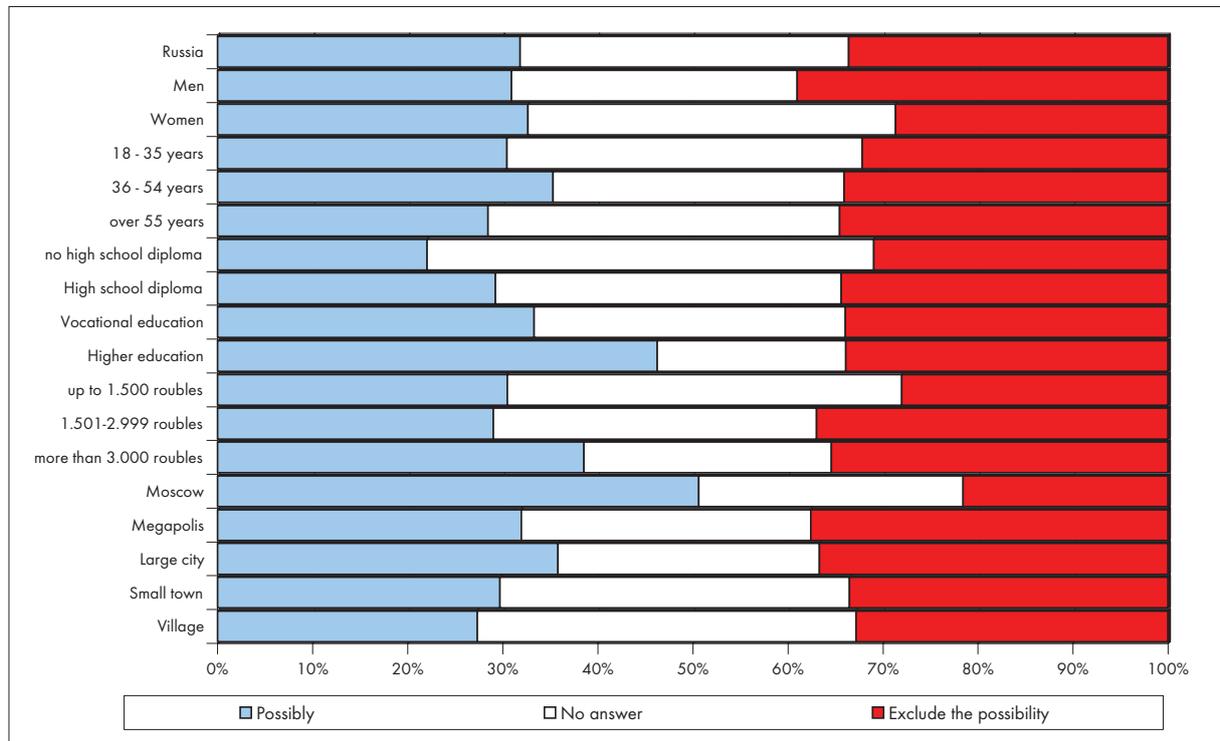
What is your attitude towards Russian democrats?



Do you approve of the idea of a coalition of the democrats?



Would you possibly vote for a united democratic party?



Regional Report

United Russia Sweeps Regional Legislatures, but Faces Difficulties in 2007 Duma Elections

By Dmitry Vinogradov, Moscow

On 12 March, Russia held its first unified election day, allowing voters in 68 regions to elect various levels of government simultaneously. Attention focused on the eight regions that elected their parliaments that day, some of them using party lists for the first time. Experts described this voting as an early indicator of the elections for the State Duma that will take place in December 2007. While the pro-Kremlin United Russia party was the top vote-getter in each region, the results suggest that it will have difficulty forming a controlling majority in the federal parliament. The eight regions were: Khanty-Mansy, Gorno-Altai, Kirov, Nizhny Novgorod, Kaliningrad, Kursk, Orenburg, and Adygeya.

According to new federal legislation, the elections in all eight regional legislatures took place according to a mixed system: half of the deputies were elected from single-member districts, half by party list. United Russia, the Communists (KPRF), the Liberal Democratic Party of Russia (LDPR), and the Party of Pensioners participated in all 8 regions, the Russian Party of Life in 6, Yabloko in 4, and the Union of Right-Forces (SPS) in 3. The barrier for entry into the parliaments of Adygeya, Kaliningrad, and Kursk was 7 percent; Kirov, 6 percent; and in the other regions, 5 percent. In total, 359 deputy mandates were at stake.

United Russia officially had the most money to

spend (88.35 million rubles), followed by Patriots of Russia (30.2 million rubles), LDPR (18.27 million rubles), and the Communists (3.57 million rubles), according to Central Electoral Commission Chairman Aleksandr Veshnyakov.

The elections were the same in each of the regions: United Russia was the leader in all regions, drawing support from the local elite, and generally facing off against one competitor, the Communists, Party of Life, Party of Pensioners, or LDPR, depending on the region. In all regions, Yabloko and SPS prepared a common list under the brand name of one of the two parties. Another common theme across regions was

the removal of the Rodina party for various violations. The only region where Rodina succeeded in remaining on the ballot was the Gorno-Altai Republic, apparently because the head of the party list there was a locally influential politician, Deputy Speaker Viktor Bezruchenkov.

The elections produced no surprises since United Russia won everywhere with varying degrees of success. Of the 359 seats contested, it won 197, scoring from 27 percent in Gorno-Altai to 55 percent in Khanty-Mansy. In five regions, the Communists won second place, with their overall vote total ranging from a low of 8.96 percent in Gorno-Altai to 17.81 percent in Nizhny Novgorod Oblast. In Gorno-Altai, Rodina took second place, while “against all” won the silver medal in Kaliningrad, with 16.48 percent. The LDPR was second in Khanty-Mansy, with 10.42 percent. The LDPR did well overall, securing representation in six regions, winning from 5.83 percent of the vote in Nizhny Novgorod to 14.58 percent in Kirov. The Agrarian Party of Russia will be in four regional legislatures, the Party of Pensioners in 3, the Party of Life and Patriots of Russia in 2, Rodina and the Industrial Party in 1.

The liberals’ performance was a failure even though they united under one of two party labels: they did not win representation in a single legislature. Yabloko participated in four campaigns, winning from 0.65 percent of the vote in Gorno-Altai to 4.03 percent in Kaliningrad. The SPS balloted in three races, winning from 2.42 percent in Khanty-Mansy to 6.54 percent in Kursk, where the minimum required to enter the regional legislature was 7 percent. Gorno-Altai’s legislature will have the most parties, with six; Adygeya and Kursk will have the fewest, with three each.

Voter participation in the regional legislative elections dropped 2.6 percent in comparison with the previous elections in these areas, according to Veshnyakov. The greatest drop, 14 percent, took place in Kaliningrad, where two parties were removed from the ballot. The large number of protest voters and the low turnout in Kaliningrad is likely connected to the authorities’ heavy handed actions during the campaign, according to Veshnyakov.

Based on these elections, Veshnyakov predicted that 10 parties would take part in the 2007 State Duma elections, with 3–5 winning representation in the national parliament.

These elections also demonstrated the contours of the future State Duma elections more generally, according to Dmitry Badovsky, the head of the Department of Special Programs at Moscow’s Institute of Social

Systems. Four parties were “allowed” to compete in all regions: United Russia, the Communists, the LDPR, and the Party of Pensioners. The focus of the campaign was the various parties’ efforts to win the favor of judges and electoral commissions, rather than a competition of party programs or even efforts to gain voter support. “The fate of all the elections to a very significant degree was decided by ‘whom they registered, and whom they did not register.’”

“The techniques for removing parties is becoming increasingly refined,” according to Boris Makarenko, deputy director for the Center of Political Technologies. “They are using increasingly bold and far-fetched pretexts.” Moreover, they are using them against obvious enemies of the authorities, such as Rodina, as well as those who simply do not enjoy the authorities’ favor. Sometimes being in favor varies from region to region: the People’s Will party was registered everywhere, except Kursk. In Nizhny Novgorod, where the governor is a leftist and the Communists are strong, the authorities removed all the other leftist parties, such as the Agrarians and the Patriots of Russia. The Party of Pensioners replaced its regional leader there and its problems disappeared. One measure of the collapse of the liberal wing of the party spectrum is that the authorities have so little fear of the Yabloko-SPS tandem that no one bothered to block them from the ballot.

Despite United Russia’s extensive successes in this regional voting, it cannot count on winning 50 percent in the 2007 State Duma elections, according to Novosibirsk Political Scientist Aleksei Mazur. The 2007 elections will be contested entirely by party lists since recent legislation dropped the previous practice of filling half of the seats by single-member districts. Therefore United Russia will need allies among the other parties (regardless of their ideologies), and party-kamikazes, whose sole purpose will be to attract votes away from more viable opponents. Currently, United Russia has only one faithful ally, Vladimir Zhirinovskiy’s LDPR. Rodina, which won representation in the parliament thanks to Kremlin support in 2003, fell out of official favor after criticizing the authorities for the botched social reforms introduced at the beginning of 2005 and has since been pushed to the sidelines. The improved results of the Party of Pensioners, Party of Life, and Patriots of Russia will raise them on the Kremlin list of possible allies for United Russia or kamikazes, particularly since the Pensioners and Patriots draw support from the leftist electorate and could drain away backing from the Communists.

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About the Russian Analytical Digest

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen (www.forschungsstelle-osteuropa.de) and the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich). It is supported by the Otto Wolff Foundation and the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language Russlandanalysen (www.russlandanalysen.de), the CSS analytical network on Russia and Eurasia (www.res.ethz.ch), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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