Blueprint for Russia

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Disclaimer

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About the Foreign Policy Centre

The Foreign Policy Centre is a leading European think tank launched under the patronage of the British Prime Minister Tony Blair to develop a vision of a fair and rule-based world order. We develop and disseminate innovative policy ideas which promote:

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About the Future of Russia Project

This pamphlet is the fifth in the Foreign Policy Centre’s ‘Future of Russia’ project which is built around seminars, lectures, publications, media contributions and larger conferences on the future of liberal and pluralist democracy in Russia. The project takes recent Russian developments and Russian perspectives as its departure point, but grounds these in the broad principles of democracy and the commitments of Russia under its adherence both to the Council of Europe and OSCE founding documents. The main purposes of the Future of Russia Project are to expose to wider media scrutiny the reversal of hard won freedoms in Russia and to address the foreign policy dilemma faced by European leaders in relations with Russia as a result. That dilemma is how to protect and promote democratic principles in practice in the face of the visible retrenchment of basic freedoms in Russia, at the same time as advancing more traditional economic, security or geopolitical interests. The work of the Future of Russia Project is directed to making sound policy recommendations for action, followed up with appropriate public dissemination, especially through seminars and media coverage.

The Future of Russia Project features prominent figures from Russian progressive politics, as well as leading specialists and policy advisers from around the world. The project concentrates on the mechanisms by which Western governments, especially the UK, can revitalise the question of Russian democratic governance as one of the central issues of European politics today.

In late June 2005, the Foreign Policy Centre (FPC) hosted a series of briefings in London on political change in Russia as it affects three key policy areas: law and the abuse of power, tax and the economy, and politics and pluralism. The aim was to use the visit to Britain of President Putin for the G-8 summit in early July as a way of focusing more attention among key decision-makers in Britain on negative political trends in Russia. This pamphlet brings leading Russian and British scholars together in outlining a set of policy options for the Putin administration to consolidate progressive democratic and economic reforms.
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Preface

Mikhail Kasyanov

Just a few years ago, I and many others both in Russia and abroad were firmly confident that Russia had chosen its way based on the universal values of modern society which prioritise human rights and freedoms, a market economy and multi-party democracy. Recently, however, a paradigm shift occurred and current developments are no longer consistent with what had previously been accomplished.

Almost all the essential characteristics of a modern democratic state have in fact disappeared in Russia within a short period of time. The separation of powers has been effectively demolished and replaced by the so-called 'Vertical of Power' which is based on the false idea that all the meaningful social and political processes must be kept under control by the state.

The Government and Parliament can no longer function without daily instructions and the judiciary is increasingly servile. Not even a single independent central television station exists any longer. Moreover, the state continues to increase its grip over electronic and print media. The abolition of the election of regional governors and the corresponding destruction of the municipal level of power add to the systemic crisis.

All this is justified by well-known cynical formulas on 'national specifics of democracy' and the need to 'preserve sovereignty'.

The lack of appropriate checks and balances and overall irresponsibility have inevitably led to an explosion of corruption. It would be wrong to claim that this is a new problem for Russia, but the intensity of this phenomenon has risen to an entirely new level. On top of all these problems, the endemic corruption adds to the overall civil insecurity that is being severely felt by ordinary Russians.
Corruption is magnified by the growing importance of state-owned companies. The Vertical of Power swallows a considerable part of the economy and undermines the basis of free enterprise. Instead of productive activities it focuses on the redistribution of assets.

As a result, structural reforms have been, at best, stalled. It is clear that in such an environment, the urgent mission of modernisation and economic diversification is impossible.

One can envisage two scenarios for further developments:

First, authorities could formulate a clear economic and political agenda with short- and medium-term policy measures addressing the main risks and current concerns by the civil society and investor community. If applied consistently, this approach might - little by little - restore confidence and allow continued capitalisation on the current wave of economic growth.

In other words, the vast majority of recent political change should be reversed, including the restoration of regional and local elections, and the canceling of the latest amendments to the electoral laws.

Real judicial reform must be re-invigorated. Of course, this system is highly reliant on inertia and cultural change matters even more than material, but lately the primary positive trends were reversed by the authorities, undermining the roots of an independent judiciary.

At least one central TV channel should be - as a matter of policy - transferred into private hands to give Russian citizens an alternative view to what is considered necessary by Kremlin.

In foreign policy, Russia should admit its recent failures obvious to anyone and restore normal relationships with its main international partners – the EU and US – and neighbouring countries.

Last but not least – property rights are to be re-confirmed. Genuine economic reform in all spheres should be restarted without the untouchables such as Gazprom and the social sphere continuing to
hinder progress. Monetary authorities must regain control over inflation.

How realistic is the first scenario? I am afraid the chances are slim.

Alternatively, in spite of the favourable economic environment, we cannot rule out the possibility of a rapid deterioration in the current situation and/or the inability of authorities to adequately react to new challenges. In turn, it could undermine civil security leading to non-constitutional developments with unpredictable short-term and long-term consequences.

By the very fact that revolutions have already cost Russia dearly, I am strongly against revolutionary developments of any kind and consider smooth democratic political process as the best way of resolving the current deadlock. Democracy can and should be secured. I believe that despite all the efforts of the current authorities to preserve their power beyond constitutional limits, the Russian people will restate their commitment to modern democratic values at the forthcoming elections - provided they are free, fair and honest.

Russians are no longer the same as during the Soviet period – they now freely travel and communicate, benefit from modern education, speak foreign languages and use the Internet. Fortunately, the younger generation does not carry the genes which keep many of their elders at the sidelines. Civil society is expanding and people are beginning to understand their basic rights and struggle for them. I believe that our main goal is to do our best to unite all the democratic forces in Russia to return the country to the democratic course.

During the last two decades, Russia reformed and accomplished much to become a modern democratic state, and Russia’s membership in the G8 along with its global role represents a clear recognition of this fact. The current leadership’s policy swings -
however dramatic they are - should not conceal this objective fact and nor should we allow them to.
Growth Challenges and Fiscal Policy

Andrei Klepach

The Russian economy is facing increasing challenges from both global competition and the exhausted potential of oil-driven development. In recent years, GDP rose at an average annual rate of six per cent, with growth exceeding seven per cent in 2003-2004. This gave rise to an ambitious goal of doubling GDP within a decade, which requires further acceleration of growth pace to at least 8.4 per cent in 2006-2010. At this point, however, the Russian economy is facing the prospect of a substantial slowdown rather than acceleration. The first quarter of this year saw GDP grow by 5.2 per cent, with growth for the full year 2005 forecast at no more than 5.8 per cent. The Ministry of Economic Development and Trade forecasts GDP growth of 5.6 per cent for 2006, expecting it to increase to six per cent in 2007-2008.

What are the causes of growth deceleration? Of course, this may be attributed to stalled reforms, the lack of Gazprom restructuring, slowed power sector reform, and uncertainty about health care and education reforms. The pace of institutional changes and the efficiency of natural monopolies do not satisfy the government and fail to meet the targets of the medium-term programme. But this is not the main factor behind the growth slowdown.

Growth is slowing primarily because the potential for rapid expansion in oil production and exports (which, together with natural gas, account for 26 per cent of GDP) is petering out, while alternative sources of growth in the manufacturing and services sectors are weak. Whereas oil output increased at an average annual rate of 8.5 per cent in 2000-2004, with exports rising almost 14 per cent a year, oil production growth is forecast at 3.5 per cent for 2005 and two per cent for 2006. Exports are expected to grow by five per cent and three per cent respectively. Despite the super-high oil prices, the oil sector will be unable to develop as rapidly as previously even if the tax burden is alleviated, which is what should be done.
Only the communication and information technology sectors, which produce about three per cent of GDP, are showing a fast annual growth of about 20 per cent. The high-tech machinery sector contributes no more than two to three per cent to GDP, but its growth rate is insufficient (about nine to ten per cent). The car making industry is in decline, although potential demand is one and a half to two times the current output level. Practically every sector of the economy has a window of growth opportunity, but it can be opened only if Russia’s businesses substantially improve competitiveness. Meanwhile, the strong trade balance hampers the maintenance of the undervalued exchange rate of the ruble. The real ruble exchange rate against the dollar has already exceeded the pre-crisis (1997) level. The price umbrella is already no larger than 10-20 per cent in most of the manufacturing industries despite the remaining gap between domestic and global fuel prices. A one per cent increase in domestic demand leads imports to grow 2.2-2.3 per cent. Productivity rises only five to six per cent annually, lagging behind real wages and ruble appreciation.

Fast growth rates cannot be achieved by artificially provoking ruble depreciation, although its appreciation should be restrained. The solution is to boost non-price competitiveness, by, among other things, more extensively attracting foreign capital to the Russian economy and improving the investment climate.

High oil prices are no longer able to speed up economic growth - not only because of deceleration in the oil sector itself. Additional petrodollars are channeled into the Stabilisation Fund rather than economic development. According to a preliminary estimate, the federal budget surplus will stand at 5.6 per cent of GDP this year and at least two per cent of GDP in 2006. Even with early repayment of debt to the Paris Club, the Stabilisation Fund will reach 1200 billion rubles at the end of 2005, or almost six per cent of GDP. Stabilisation Fund expansion allows part of excess liquidity to be withdrawn but no longer helps to control inflation as efficiently as required.
In January-May 2005, consumer prices rose by 7.3 per cent - a third faster than a year earlier, threatening failure to achieve the government’s goal of bringing inflation down to no more than ten per cent. Unlike the previous years, inflation is driven mainly by non-monetary factors: administrative price hikes for housing and utility services by almost a third and the growing gap between demand for and supply of foodstuffs. It is hardly possible to put a brake on price rises without implementing housing sector reform and fostering market competition.

Despite the planned surplus decrease and spending expansion, the budget cannot be called an interventionist one. Fiscal policy will indeed be loosened but the budget will still run a surplus. In 2006, budget revenue may drop to 19 per cent of GDP owing to a number of tax cuts, but expenditure, after rising to about 17 per cent of GDP in 2005, will stabilize at this level in 2006. The spending structure is changing in favour of social transfers and pension payments so that government commitments to double public sector wages can be met. At the same time, despite the rising pension payments and growing deficit of the Pension Fund, which may assume threatening proportions after 2008, the gap between the incomes of pensioners and workers will increase.

The priorities of fiscal and monetary policies are social spending expansion and early repayment of external debt, whereas the issues of the economy’s development and restructuring will be dealt with after 2008. Of course, the budget cannot assume responsibility for economic growth in a market economy, but Russia, with its weak financial markets and domestic business’ low propensity to invest, government investment and programmes remains an important instrument of economic growth. Moreover, the scale of government support for the economy is many times smaller than that seen in Europe.

Following a three per cent real increase in financing for federal programs in 2005-2006, it will drop by six per cent in 2007-2008, just below the 2004 level. To move to the GDP growth trajectory, investment spending, including that from the Investment Fund, should be raised to 2-2.5 per cent of GDP (versus 1.7 per cent of
GDP according to the draft budget), coupled with improving the efficiency of programs and increasing the share of high-tech projects in the financing structure to at least 28-30 per cent and expenditure on transport infrastructure development - to 40-45 per cent.

The budget should plan not only wage increases but also spending increases on reform implementation. The very approach to reforms needs to be changed:

- First, from the perspective of prioritisation – We need to decide which reforms come first and which follow them, because we cannot implement six to eight reforms at a time;
- Second, the financial cost of reforms for both the budget and society need to be carefully assessed in order to avoid repeating mistakes made as social benefits in kind were replaced by cash;
- Third, the technology of reforms should be refined, for example, economic mechanisms of attracting private investment in electricity generation companies should be devised and requirements for engineering policy in the power sector upgraded in order to avoid the repetition of grid failures similar to what occurred in Moscow recently.

Money does matter, but there are more important things than money, such as the confidence of business, society and authorities, which needs to be enhanced. The state as a whole so far enjoys sufficient confidence, but it is very unevenly distributed between the power branches: the fairly high rating of the president contrasts with the traditionally low rating of the legislative and judicial branches as well as that of the government. Without a programme of confidence enhancement supported by real political steps, Russia will be unable to implement reform and modernise the economy.
What Makes a Good Tax System?

*Gabriel Stein*

Russia has within its grasp the prize of winning recognition for one of the most successful reforms of any tax system around the world. Yet will its tax inspectors snatch defeat from the jaws of victory?

Russia has in theory done extremely well, having had the advantage in the 1990s and early 2000s to contemplate a complete overhaul of the tax system. The 2001 reforms, which cut the rate of income tax to a flat rate of 13 per cent (30 per cent for non-residents) and (most) corporate tax to 24 per cent are a model, not only for other central and eastern European countries – many of which have flat taxes of their own – but also for western Europe. Unsurprisingly, these tax reforms did help to bring about a non-trivial rise in general government revenues from 33.6 per cent of GDP in 1999 to 37.6 per cent in 2002. And let us be clear about the measure of this achievement by defining what a tax system should do.

Obviously, a major issue is to raise revenues to pay for public sector expenditure. But this can be done in a number of ways, some of which bear no relation to taxes as we know them. Clearly, there are other issues involved as well. These include promoting output growth, greater or lesser redistribution of income and/or wealth and so on. Some of these, of course, may be contradictory. For instance, a policy of maximising revenue and redistribution is likely to run counter to maximising output growth. Here, Sweden is an excellent example. From 1870 to 1970, Sweden had the fastest per capita growth in the world. Coincidentally, Sweden was also a low tax country. But from the mid-1960s onwards – with a substantial trend break in 1970 – Swedish taxes began to rise sharply. At the same time, output growth slowed. Although the last ten years have generally been a good period for the Swedish economy, over the last 35 years, Sweden has generally been out-performed by most similar economies.
In addition to deciding what a tax system should do, there is also the issue of how it should work. Here too, there are a number of factors to take into account. One important role is played by perceptions of fairness. It is generally agreed that a tax system must be seen to be fair. However, the definition of fairness varies, including such aspects as vertical fairness (high income earners/the rich pay more) and horizontal fairness (everyone pays the same proportion, alternatively the same marginal tax rate). Possibly more important, however, are issues like simplicity, clarity, transparency and predictability. Although these overlap, they are not exactly the same. Simplicity means exactly that. The tax system should be easy to deal with. Clarity means that it should be possible to absorb the principles of the tax system without too much difficulty. Transparency means that the tax system should be seen to perform fairly and in the way ostensibly intended, while predictability means that a given action should have predictable consequences; that the same action or situation should have the same result and that there is no retroactive legislation – *nullum crimen, nulla poena, sine lege*, if you want.

Finally, in the case of Russia, an underdeveloped economy, the attraction of the tax system for foreign investors is presumably also a factor. However, this need not extend to favourable treatment for foreigners relative to domestic investors, as long as the basic tax system conforms to the principles mentioned above.

This is not simply an idealistic view of how things should be. As Western experience shows, a tax system that is punitive or perceived to be unfair, leads to large-scale tax evasion and avoidance. This not only involves revenue loss – sometimes substantial – but also a misallocation of resources towards paying accountants to find or dream up new loopholes, the plugging of which causes further misallocation as the search continues, and so on. More to the point, the experience of the last two or three decades clearly show that a basic tax structure, involving at most a few rates with a broad tax base, is both perceived to be more equitable and collects much more in revenue than a multi-layered system with numerous exemptions.
In many ways, Russia has taken the correct steps. However, its bright beginning was soon followed by problems. I refer, of course, to the Yukos affair. Whatever the rights and wrongs of the original way in which Russian businesses were privatised during the 1990s, this is a clear case of using the tax system to settle political scores. And this is not the only one. Before the Yukos case, we had the attacks on Boris Berezovsky and Vladimir Gusinsky, both now living in exile. And during the Yukos trial, there was the sudden claim in January 2004 for back taxes against the mobile telephone company Vimpelcom. Add to this the peculiar circumstance surrounding the sale of the Yukos subsidiary Yuganskneftegaz and there is no surprise that foreign investors have grown wary of Russia — in spite of the potential riches to be had from the country’s natural resources. According to the IMF, net FDI (i.e., foreign investment into Russia less Russian investment abroad) went from 215 million US dollars in 2001 to minus 72 million in 2002 and minus 1.8 billion in 2003. True, this balance returned to positive with a 2.1 billion dollar surplus in 2004, but this may be related to the 6.2 billion dollar injection by BP.

It is this which cuts to the heart of many problems with the Russian tax system. Fairness may be the most important beginning of any tax system. But the system must not only be fair, it must also be seen to be fair. Abuse of discretionary power by the tax authorities will only serve to undermine the huge potential advantages. The system may be perfectly designed — but if it is abused for political means, if the rules are changed or ignored as it pleases the authorities, then the perfectly designed system — like those wonderful Soviet-era constitutions — becomes meaningless. As Richard Pipes put it in his article ‘East is East’ in *New Republic* in May 1999, Russia has no tradition of limited government, no institution of private property and a history that shows little regard for the rule of law.

That was before Vladimir Putin became president of the Russian Federation. However, just last week, an OECD report (Russia: Building Rules for the Market) called for ‘wide-ranging and coherent regulatory reform strategy’ and noted that ‘the combination of excessive regulation, frequent rule changes and inconsistent application makes it very difficult for domestic and foreign
businesses to be sure they are on the right side of the law. New regulatory bodies need to be created, existing regulatory agencies given more independence and power and an effective competition policy put in place’. In addition, the OECD report noted that the weak rule of law and the opacity and corruption of state institutions hinder Russia’s transition towards a proper market economy, ‘the security services, the prosecutors and the police remain highly politicised and have frequently been employed against businessmen who were in conflict with the federal or regional authorities’.

If President Putin wishes to promote a good Russia, a Russia that is economically successful, fair to its inhabitants and an integrated member of the international community, these are the issues he needs to address. If, on the contrary, he is mesmerised by the thought of a great Russia, a Russia which is fearfully respected, he will ignore them. Of course, in that case, he will get neither the one, nor the other.
Russia and its Oil: Friends or Foes

Pavel Erochkine

After the collapse of the Soviet Union in 1991, Russia followed the advice of Western economists and immediately privatised the bulk of the country’s assets. The result was an economic disaster rather than a miracle. By the end of 1998, the country’s gross domestic product (GDP) fell by 40 per cent, a third of the population found itself suddenly impoverished while oil production, the backbone of the economy, seriously declined.

The economic and political mistakes of the 1990s resulted in the 1998 crisis, which inflicted serious damage on the economy but also gave it an unexpected boost through a sharp depreciation of the currency. Since 1998, the Russian economy has been growing by seven per cent a year on average and, until recently, seemed to be on track to meet President Putin’s goal of doubling Russia’s GDP by 2010. By 2005, its GDP almost recovered to the level in 1991. Since the crisis, the Russian stock market has grown by 900 per cent, providing stellar returns to investors.

However, the economy has been slowing in the last year and grew only 5.2 per cent in the first half of 2005. This is the slowest growth rate that Russia has experienced in the last three years. Inflation has been picking up and will exceed the government’s target of 10 per cent this year. Surprisingly, in the high-oil price environment, Russia’s oil production has been slowing. It grew by only 1.9 per cent in June 2005 on an annual basis, which is low compared to the growth rate of 8.7 per cent in 2004.

Several questions result: why is the Russian economy slowing when commodity prices are high? Is this just a temporarily slip? The direction of President Putin’s policy has been questioned and a lot of blame has been put on the growing state intervention in the energy sector, which, as some argue, is harmful to the oil and gas industry.
itself and to the Russian economy as a whole. The so-called Yukos affair and the imprisonment of Mikhail Khodorkovsky are still at the centre of the analysts’ attention and are seen as a major step backwards for Russia.

This essay will examine these issues and will argue that:

- Russia is the most important non-OPEC oil producer and has a huge potential; its oil industry is underpinning the consumption boom that is the key force in economic growth. The Russian oil industry could be the long-term pillar of economic growth rather than a ‘curse’;
- Russia suffers from the classic Dutch disease and this is one of the reasons why growth has slowed and reforms have stalled;
- Russia needs investment in order to achieve sufficiently high productivity growth that will sustain the competitiveness of its economy;
- Both of those problems have the same solution: tight fiscal policy, focused monetary policy, appropriate incentives for the oil industry and explicit state protection of property rights. The main risks are political and not economic;
- In the future, Russia could use part of the stabilisation fund to create something akin to the Alaska Permanent Fund that gives citizens a share of the oil revenues in the form of dividends. This could be linked to child benefits and used as an instrument to deal with the problem of a rapidly falling population.

1. The Russian oil industry after the collapse of the Soviet Union

Russia occupies 13 per cent of the world’s land but has less than three per cent of the world’s population. Russia boasts 35 per cent of the world’s natural resources and has 15 per cent of the proven world’s reserves of hydrocarbons. Russia is both the world’s second largest producer and exporter of crude oil and is the world’s largest producer and exporter of natural gas.
According to the *BP Statistical Review*, Russia has the largest hydrocarbon resource base in the world. It also has the world’s largest natural gas reserves and seventh largest reserves of crude oil, which account for 5.7 per cent of the world’s total oil reserves. Five of the 13 world’s largest publicly traded oil companies are Russian. In contrast to many other oil producers, such as Royal Dutch / Shell and El Paso energy, which have seen downward reserve reclassifications, Russian oil companies have huge potential and are likely to see upward reclassifications if investments rise and modern technologies are applied.

In fact, a 1977 study by the US government ([www.foia.cia.gov](http://www.foia.cia.gov)) estimated the reserves of the whole of the Soviet Union at 30-35 bn bbl but over 90 bn bbl have been produced since then and, according to BP, there are at least 60 bn bbl of reserves in the ground. And this figure could be much higher. DeGolyer and MacNaughton (see graph below) estimate, for example, that there could be as much as 150 bn bbl of proved, probable and possible (3P) crude oil reserves in Russia.

Russia’s oil industry has benefited from high oil prices and has shown strong (but slowing) growth in crude oil production. Only Russia and the Middle East are capable of increasing oil production to meet the rising world demand for oil. Global oil demand is set to increase 2.2 per cent (1.8 mmbpd) in 2005 but non-OPEC supply would only grow by 1.7 per cent (0.85 mmbpd), of which 60 per cent would come from Russia. Similarly, in 2003 and 2004 Russia accounted for 95 per cent and 75 per cent respectively of non-OPEC oil production growth. Thus, Russia is the most important non-OPEC oil producer in the world.
Russian oil production peaked in 1986-1988 when it produced 570 million tonnes a year on average (20 per cent of the world’s total). After the collapse of the Soviet Union, oil production was in a free fall until the 1990s. By 1995, the production levels had fallen to only 307 million tonnes a year (10 per cent of the world’s total) and then stabilised at that level for some time.

This drastic reduction was caused by a number of reasons including:

- A collapse in industrial production, resulting in lower demand for oil;
- The destruction of organisational structures and established distribution channels;
- Insufficient investments in the industry;
- Old and physically crumbling equipment and infrastructure;
- Declining production rates of some major basins.

Stagnation in the oil industry was caused by the overall stagnation and turbulence in the economy but falling oil production reinforced negative pressures on the economy. If the government managed to keep oil production above 500-550 million tonnes a year throughout the 1990s then the economy would have been able to avoid many of the shocks and liquidity problems.

A resurgence in Russian oil production began at the end of the 1990s. From 2000 to 2004, Russia produced 430 million tones of oil a year on average. In addition, the country has successfully expanded infrastructure for transportation of crude oil and oil...
products. Today, Russia's crude production and export growth are more curtailed by lack of investment in geological exploration and new oil fields rather than by insufficient export capacity. This rebound in Russia's oil production has helped the world economy to meet the growing global demand for oil and has, arguably, benefited the Russian economy. A similar resurgence occurred in the gas industry.

Since 2004 growth in oil production (and the Russian economy as a whole) has seriously slowed. At the end of 2003, most analysts expected Russia's 2005 production to grow at least 5.5 – 6.0 per cent but now even the most optimistic forecasts are well below four per cent.

Graph: Crude and Condensate, per cent growth year-on-year

This does not have to be the end of the oil boom. Although the industry will continue to rely heavily on Western Siberian and Volga-Urals' reserves, the key to the future development of oil production in Russia is increasing usage of reserves in Eastern Siberia, the Far North and the Far East. Russia urgently needs more investment in geological exploration and new basins as well as in modernisation of
refineries in order to start producing higher quality fuels. In addition, development of the liquefied gas industry is essential.

All of these require a favourable investment climate and stable business environment to stimulate domestic and foreign investment, and a taxation system that sets the right incentives. But, is the recent slowdown in production an indicator that those conditions are not being met? Has the industry started to suffer from high oil prices and higher state intervention in the energy sector?

Graph: Russian Far East and Eastern Siberian production

Source: Russian Energy Strategy to 2020, Brunswick UBS

2. Oil in the Russian Economy

Before and after the collapse of the Soviet Union, oil has been the backbone of the Russian economy. About 60 per cent of Russia’s exports are tied to oil prices and more than 30 per cent of the government revenues usually come from the oil sector. Directly, it accounts for 20 per cent of Russia’s GDP and for more than 40 per cent if related industries are taken into account.
However, Russia has inherited a large industrial sector from the Soviet Union, which makes it less dependent on oil than other major oil producing countries. In Saudi Arabia, oil represents 95 per cent of exports, 75 per cent of government revenues and 40 per cent of GDP. Similarly, in Venezuela, oil is 75 per cent of export revenues, 60 per cent of government revenues and 35 per cent of GDP.

The oil industry has been the driver of the consumption boom in Russia and buoyant consumption has become the key driving force in the economy. Russia needs its growing oil production and export to sustain growth elsewhere in the economy. There has been a strong correlation between growth in the oil industry and investment in non-oil sectors of the economy. Thus, Russia’s long-term prospects depend critically on the oil industry and ability of policy makers and domestic producers to utilise a favourable external environment.

The oil industry is central to President Putin’s goal of doubling Russia’s GDP but there are three apparent problems in Russia.

First, economic growth is slowing as oil prices continue to increase (see Section Three – Oil as a Curse).

Graph: Economic Growth and Oil Prices

Source: Renaissance Capital
Second, high oil prices make Russia more dependent on oil. Rapid development of the oil and gas industry has had some positive effects on the economy, standards of living and government finances but by growing faster than some of the other sectors of the economy and attracting a disproportionate share of investments, it is making the economy more dependent on oil and the export of natural resources. Overall, the Russian economy is more dependent on oil today than under President Yeltsin. An important outcome is that the centralised state feels vulnerable and seeks to establish more control over the industry through intervention.

Graph:

In addition, high oil prices have masked most of the progress that has been made towards more diversified growth (for example, strong growth in manufacturing and the food industry aimed at domestic consumption).
Third, an important question is whether the Russian economy will collapse if oil prices fall. Although a major drop in the oil price is unlikely, it is always a possibility. Effects on the Russian economy will be minimal if the price gradually falls to $30 per barrel. If it falls to $20, the Russian economy is likely to experience a ‘soft-landing’ and would continue to grow slowly, in the best case scenario. If prices fall to below $20, Russia’s overall pipeline crude oil exports would lose
money and effects could be disastrous. Russia could then be thrown back 10-15 years in development and all post-Soviet gains could be erased.

So, the main question is whether oil is a ‘curse’ for Russia?

3. Oil as a ‘curse’

A consensus has emerged among economists that abundance of resources is not necessarily a blessing for a country. Economic history has shown that resource-poor countries can be very successful. One just needs to look at Switzerland, Hong-Kong and Japan, or to compare East Asia to the more resource-rich Latin America.

Studies by Sala-i-Martin (1997) and Dopperhoer et al. (2000) find that natural resources is one of the most robust variables that negatively affects economic growth. This phenomenon was evident as early as the 17th century, when Spain stagnated once it started to receive gold from its colonies (whose own poor development is now attributed to gold, not to colonisers). Today, countries like Angola and Nigeria, where oil accounts for 95 per cent of exports, are some of the least developed countries in the world.

The consequences of resource abundance can be far more serious than just slow economic growth. Most recent civil wars have been struggles over rents for natural resources. In Nigeria, attempts by the eastern tribes to gain control over the country’s oil resulted in the Biafran struggle in the late 1960s in which millions died. Tim Hartford writing in openDemocracy (17th October 2003) argued that ‘if oil has been discovered there [in South Korea and Switzerland] instead of in the Middle East, there is a good chance they would have suffered and we would now be praising countries like Iran and Iraq for their economic dynamism and their political stability’.

There are several main reasons why being resource rich may be harmful:

- Vulnerability to volatile commodity prices;
- Rent-seeking which can corrupt institutions and discourages careful economic planning. In addition, the government could use oil windfalls to protect citizens from competition via subsidies;

- Less demand for democratic representation as governments do not need to rely on taxation to finance expenditure. This makes the civil relationship between the people and their government dispensable, and usually leads to more authoritarian governments;

- The so-called ‘Dutch disease’, named after Holland’s experience in the 1970s, when large foreign inflows from resource exports destroy the competitiveness of non-oil industries through upward pressures on exchange rates;

- What President Putin’s economic advisor, Andrei Illarionov calls ‘Venezuelization’: the growing role of the state and higher government spending increase the risk of economic mismanagement.

Many of those symptoms are present in Russia. Russia has a potentially fatal combination of poor property rights, underdeveloped market institutions, a corrupt judicial system and huge resource rents, especially recently. When German Gref, the economic minister, was asked about positive and negative factors affecting the Russian economy, he once replied ‘high oil prices’.

Although there are robust arguments that show that oil can be a curse, this is not a rule and there are countries that have prospered because of natural resources. In fact, almost all countries started their economic development with heavy reliance on natural resources. A study by Martin (2004) demonstrated that in the late 1970s, agricultural and mineral commodities accounted for about 75 per cent of exports from developing countries but had fallen to about 20 per cent by the 1990s. The main driving force towards diversification of economic base has been the reduction in protectionism and openness to trade. This is a good reason for Russia to join the WTO.

Economic historian Barry Eichengreen argues that in the US, the rich availability of natural resources underpinned the country’s free
market economic policies and its democratic development. Another example is Norway, where oil accounts for 45 per cent of exports and 17 per cent of GDP. According to Eichengreen, the key is private property rights, sensible economic policies and flexible labour markets.

In the 1990s, Russia followed the American model by privatising most of its natural resources in one big swoop. The way American robber barons acquired their assets is not much different from the way Russian oligarchs benefited from the loan for shares programme. Only Rosneft and Gazprom remain state-controlled, while most other companies, including Lukoil, Sibur and TNK, are private (and far more efficient). Moreover, although Russia may seem to be underdeveloped in comparison to its fellow G8 countries, Russia has achieved a level of development of which many other oil producing countries can only dream.

4. Russia’s slowdown and oil curse

Graph: GDP and Income Growth

Economic growth in Russia is slowing. This has been widely attributed to liquidity shortfalls and growing state intervention. The former is plainly wrong. Private consumption and credit are buoyant and are the driving force behind economic growth. The latter has been more profound. A deteriorating investment climate, which could be attributed to the failures of the state, is reflected in the slowdown in investments. However, Russia is not an exception and one of the
main causes of its problems is that it does suffer from the Dutch disease.

Graph: Personal incomes and Loans, USD billions

The main economic problem for Russia is stubbornly high inflation and appreciation of the ruble, both largely caused by balance of payment inflows. CPI (consumer price index) inflation was 11.7 per cent in 2004, well above the government target of 10 per cent. This is an inevitable effect of high oil prices for a major oil producing country, like Russia. Similarly, a large proportion of the appreciation of the ruble (about 60 per cent since 1998) has been caused by increases in oil prices and volume of oil export. Problems would have been more severe if the Russian government did not use accumulation of money into the Stabilisation Fund to sterilise most of the inflows.

Thus, inflation and appreciation of the ruble have increased production costs, reducing the competitiveness of Russian companies, and have slowed industrial growth. Despite growing production costs, Russian industry still maintains its comparative cost advantage but needs high rates of productivity growth in order to sustain competitiveness and be able to use the current consumption boom to establish competitive businesses.

Productivity growth requires major investments (which would also allow companies to benefit from the ruble appreciation by importing equipment to launch new products and expand capacity) but investment growth is slowing. The slowdown in investment is rightly blamed on the government.
On the face of it, there is a pro-business government that is trying (but sometimes failing) to sustain economic growth in the country. Macroeconomic policies have generally been sensible and Russia has received investment grade ratings from all the main rating agencies, including Standard and Poor’s and Fitch and Moody’s. Despite speculation about a change of course, the government has not changed direction. Unfortunately, the reforms have lost momentum and have practically stalled. Failure of welfare reform (monetisation of benefits) has complicated further structural reforms, especially in the social sphere.

The Yukos affair has contributed to the deterioration of the investment climate. One can rightly argue that the arrest and imprisonment of Mikhail Khodorkovsky are consistent with the government’s attempts to adhere to the rule of law and to legitimise business environment. There are obvious benefits of ending the oligarchic era of the 1990s and, in fact, there is evidence that the Yukos affair has encouraged Russian companies to pay taxes in full and to become more law abiding.

The problem is that, in contrast to previous victories over Gusinsky and Berezovsky, the collateral damage has been substantial because of the uncertainty surrounding the case with regards to property rights in the oil industry and in Russia as a whole. Without fair courts and a strong judicial system, it is the responsibility of the government to ensure the protection of property rights, no matter how the property was initially acquired. Yukos has been the biggest example of increasingly discretionary state intervention, which has created serious concerns about the willingness of the state to unreservedly protect property rights.

There is a further problem. Consolidation of political power in the Kremlin has not been used to speed up modernisation of the country but has undermined many of the President’s other achievements. Vladimir Putin is pushing for a business friendly regulatory and administrative system but progress in those areas is bound to be poor. The concentration of power has removed checks and balances on bureaucracy and red tape. Paradoxically, as they are being
reformed, bureaucratic clans are starting to behave more and more arbitrarily.

Russia needs a more transparent and accountable government and judicial system, and this is not happening. Russia’s ranking in the Transparency International’s Corruption Perceptions Index is falling (from 71 in 2002 to 90 in 2004) and there is a feeling that little is being done about this.

Some of those are classical problems of a resource abundant country. Russia’s main problem is its institutions. After the collapse of the Soviet Union, institutions that supported central planning were destroyed and have been replaced by new bits and pieces. The current institutional foundation on which the Russian economy sits is weak and underdeveloped. Huge oil rents put a lot of pressure on them and this is one of the reasons why growth has slowed down. President Putin needs to use political power to further liberalise economy (and not encourage more state intervention) in order to help the dissipation of rents.

4a. Fiscal and monetary policy are the only medicine

Even though President Putin cannot order the Russian economy to grow faster, competent and responsible economic policies are the key to a sustainable economic growth. William Thompson, senior economist at the OECD, rightly argues that ‘the resource curse has more to do with politics than anything else’. Oil rents create temptations, and there are no institutional checks and balances to rein in the government if it is tempted. Thus, the President of Russia is not only the guarantor of the Constitution but also, potentially, a guarantor of sustainable economic growth.

At the very least, the imprisonment of Khodorkovsky shows that the Kremlin is no longer controlled by the oligarchs and can pursue independent macroeconomic policies. The President needs to make sure that his government does not relax fiscal policy, refocuses monetary policy, sets the right incentives for the oil and gas industry and avoids any radical reforms.
Fiscal policy is a key to prosperity and a remedy against the Dutch disease for resource-rich Russia. The general problem is that more spending leads to greater government involvement and further corrupts institutions, which significantly increases the risk of economic mismanagement. It also boosts inflation. The specific issue for Russia is that the government should not be allowed to relax fiscal policy by increasing the Stabilisation Fund’s base price in order to divert some of the Fund’s revenues into government spending.

The original idea behind the Stabilisation Fund was to accumulate money when oil prices are high and set them aside for times when prices are low. The Fund receives all the oil-related tax proceeds above the base price of $20 per barrel. The Fund has been rapidly expanding and reached $25bn in March 2005, exceeding the originally intended target size of $18bn (500 bn rubles). There are no clear rules about how the Fund can be spent and the government is tempted to use the money to boost its social and welfare spending and to try to encourage economic growth by investing in big infrastructure projects. Big business and the public are generally supportive of the idea that some of the Fund should be spent now; the former because this will not harm companies (the Fund is basically a mechanism for redistributing the government revenues), but would create new business and looting opportunities; the latter because people do not understand why a huge sum of money is being kept aside and does not work for the benefit of Russia.

The idea that government spending would boost economic growth and would stimulate all sectors of the economy is theoretically sound but not for a country whose main emerging economic problem is inflation. Higher government spending will add to inflationary pressures and further discourage investment growth. Also, many government investments will be a waste, especially given the high level of corruption in Russia. Policy makers should look how huge amounts of foreign aid and oil revenues disappear in Africa and do not help African economies and people to fully understand this. Nigeria, for example, invested huge amounts of money into the Ajaokuta steel complex but it has never produced much steel.
From the economic point of view, accumulating cash in the Fund and paying off debts is the best short-term solution, far superior to any state investments in infrastructure and industry or social spending. The priority for the government should be to mitigate against negative effects of large inflows of oil money.

Many countries have faced a similar dilemma. A jump in coffee prices in the 1970s led to significant windfalls to Costa Rica (11 per cent of GDP), Cote d’Ivoire (20 per cent) and Cameroon (9 per cent) between 1976 and 1979. Costa Rica and Cote d’Ivoire relaxed their fiscal policies and managed to spend more than their windfalls. Their current account deteriorated by -1.7 per cent and -5.7 per cent respectively, institutions became more corrupt and long-term economic prospects were severely harmed. Cameroon managed to improve its current account and boost its economic growth by fiscal tightening.

Graph: Stabilisation Fund – A Base Case Scenario

(Renaissance Capital’s base case scenario assumes: an increase in the base price to USD23 per barrel from 2006; the fund is tapped to repay USD32 billion to the Paris Club over the next three years and plug the Pension Fund deficit; investment spending is within USD2.0-2.5 billion per annum; and the remainder is left untouched.)
A longer term objective of the Fund is to insulate Russia from economic shocks. This objective only requires a certain amount of money in the Fund. If it accumulates excessive capital during the high oil price period, and once inflationary pressures disappear, a part of the Fund could be turned into something like the Alaska Permanent Fund.

The Alaska Fund acts as a diversified mutual fund investing oil revenues on behalf of the population and paying out dividends. It has reached about $30 billion in assets and each year pays a dividend to qualified residents of about $1,000. The advantage of such an arrangement is that people spend money more efficiently than governments and stimulate all sectors of the economy. A secondary benefit is that if people’s right to a portion of the oil revenues is specified in the Constitution, it will force the government to be more accountable and responsible to its citizens.

Moreover, if the right to a proportion of the oil revenues is given to children and is linked to child benefits then it could also be used to deal with the problem of a falling population. Population controls have worked in China and a reverse policy could work well in Russia. There is a demographic crisis in the country and, even though the President and the Government have made public promises to stop it, not much has been done about it.

An alternative would be to use the excess cash to stimulate the development of small and medium size businesses by temporarily reducing taxes. According to OPORA, a Russian business association, the number of SMEs in Russia has not really grown since mid-1990s and the 900,000 SMEs that exist generate only 12 per cent of GDP. This is far lower than in any developed country. In the US, small businesses account for over 50 per cent of GDP.

Tight fiscal policy needs to be supported by an appropriate monetary policy. Today, monetary policy is unfocussed and tries to achieve too many things at the same time, which is unrealistic. The government needs to set itself clear targets and adjust the policy accordingly.
Another key issue is taxation of the oil and gas industry. Russia needs more investments into geological exploration, new oil fields, refineries and liquefied gas. Russian oil companies are internationally competitive, cash rich and capable of attracting large foreign investments. The missing link is a clear and predictable policy.

The state needs to

- Show absolute respect for property rights and legitimise past privatisations. President Putin’s plan to reduce the statute of limitations on prosecuting illicit privatization deals to three years from ten is an important step in this direction;
- Change the way that tax audits are conducted to remove possibilities for arbitrariness and ensure that completed tax audits cannot be reopened without very good reasons;
- Clearly state the extent to which the government is ready to use the tax regime and regulation to bring domestic oil and product prices under control if international prices continue to increase;
- Reinforce its support for infrastructure expansion projects (without trying to tap the Stabilisation Fund) and remove uncertainty about what it will cost to use the new pipelines;
- Liberalise the transport system;
- Remove uncertainty about the mineral extraction tax and new licensing terms. Also, most of the existing licenses were issued in the mid-1990s and there are no historical precedents about their renewal. The damage will be enormous if renewal of licenses becomes a property redistribution exercise;
- Maximise incentives for investments in new and offshore oil fields and in geological exploration; encourage introduction of new technologies.

If regulatory and taxation systems set the right incentives for companies and provide certainty and stability, then high taxes on natural resources need not be harmful to the industry. The experience of Norway shows that if the framework is right then higher burden on natural resources can efficiently divert investments
into other sectors of the economy and thus stimulate diversification away from oil.

To avoid disastrous economic mismanagement, the current Russian government should avoid any radical reforms and stick to those simple rules, which will allow the companies to use current opportunities to grow and establish competitive products. Basically, what Russia needs now is a business environment that encourages investments and allows those investments to be safe and profitable.

There are, however, a number of reforms that have been started in one way or another and need to be completed:

- closing of tax loopholes;
- inter-government fiscal relations;
- laws to support development of mortgages and consumer credit;
- health and education reform;
- administrative reform;
- reform of natural monopolies and the gas sector;
- bank reform and deposit insurance scheme;
- judicial reform;
- efforts to join the WTO.

If the government really wants to become more active and do something big then it would do better to focus its efforts on education and human capital. Education and development of human capital in oil rich countries are generally relatively meagre. On average, five per cent of the world’s GNP is spent on education and this figure is much higher in the OECD. This figure shrinks to less than four per cent in the OPEC countries, where less than 55 per cent of children have access to secondary education. Russia has inherited a solid educational system from the Soviet Union but the system is crumbling and the best and brightest are leaving the country. It is essential to revamp and adapt it to the changing conditions in order to boost Russia’s long-term prospects.
5. The Future of Russia

The current growth wave began because of the weak ruble, huge excess capacity and cheap labour. Since then, economic growth, high oil prices and the resulting Dutch disease have eliminated those sources of growth and so it is not surprising that the economy is slowing. The next stage of Russia's economic development will be based on private consumption and credit, the growing productivity of domestic producers and further developments in the oil and gas sector. The World Bank is optimistic about the prospects for growth to pick up:

There is much that the Russian government can do to ensure sustainable and diversified growth, and this would not require a substantial change in course from the basic reform and policy strategy that has been pursued by the government since 2000 (Russian Economic Report, March 2005).

President Putin seems to recognise that high oil revenues are not necessarily good. 'It helps as much as it replenishes the budget,' Putin specified. The President and his administration are trying to send the signal that regulatory and taxation systems are being improved, that the government is supportive of business and that worries about property rights are unjustified.

In spring 2005, the government approved two scenarios for Russia’s medium-term economic development. The pessimistic scenario is based on the average oil price of $28 bbl in the long-term and assumes a poor investment climate, no new reforms and a steady reduction in competitiveness of Russian companies. The base case scenario is more optimistic and is based on favourable external conditions and efficient government. According to this scenario, recent slowdown is worrying but not fatal. The economy is on the path to diversification away from oil, with Russian companies becoming more competitive and starting to produce internationally competitive goods that would compete not on price but on quality.
Russia and its Oil

Graph: Two scenarios: real economic indicators

The base scenario is achievable. Economic policies that would lead to it are realistic. The main uncertainty that hangs over Russia is politics. Politics in Russia still dominates the economy and the country is heavily dependent on what is going on inside the Kremlin. If the administration succeeds in resisting the temptations of boosting its popularity at the expense of sensible economic policies and of focusing on rent-seeking instead of protecting property rights then there is not much, except a sudden fall in oil prices, that would stop Russia from booming.
Law and the Abuse of Power: Some Reflections on Policy for the Putin Administration

William Butler

‘Abuse of power’ is not a phrase that will translate meaningfully into the Russian language as part of a dialogue on international affairs. There are relevant provisions of the Criminal Code of the Russian Federation (Articles 201, 202, and 285), but this discussion has nothing whatsoever to do with that concept of the Criminal Code, or those provisions. In the broader political sense, law in any modern society is expected to operate as a restraint upon the abuse of power. The Russian constitutional order is no exception. The 1993 Russian Constitution, and those equivalent documents of the 88 subjects of the Russian Federation, consecrate the concept of the limited State as reflected in the doctrines of checks and balances and the separation of powers.

At this particular moment in history we are in our fourteenth year of post-Soviet law reform and transition from a socialist legal system to what most comparatists call a legal system “in transition” to a destination undetermined. Early into its second term of office, the Putin Government deserves full credit for completing the first and second rounds of law reform that were commenced, and then stalled, under the predecessor regime. All of the principal codes of law have now been replaced with the entry into force on 1 January 2005 of the Housing Code of the Russian Federation. The body of USSR legislation still in force gradually decreases month by month at the level of subordinate normative legal acts.

What can only be described as sweeping and massive reforms of the judicial system have been implemented during the past fourteen years, some in two or even three generations of reform, and the requisite codes of procedure have been introduced into force, for the most part in the last two to three years. Procedural reforms have set uneasily within the Russian systems for State administration,
including the judiciary; the procedural codes (civil and criminal) underwent massive amendment within months after their entry into force and are still the subject of contentious analysis. Western input into these reforms has been substantial (jury system, greater adversariality, more emphasis upon due process, career judiciary, and so on) but not an unqualified success. Miracles are not part of judicial reforms anywhere, and it will take some time for Russia to find the proper balance between its procedural models and a fully-trained, impartial and incorruptible judiciary.

There is probably no aspect of the Russian legal system that does not continue to require careful analysis and further reform. These will be more in the nature of adjustments than in the massive alterations of recent years, and as such they will be more difficult and perhaps more contentious than previously, when all recognized the need for change. Russia, in other words, with respect to reform has joined the rest of Europe and North America by having achieved a sufficient threshold of institutional transformation to now undertake constant tinkering with the system and draw upon useful foreign experience, negative and positive, when doing so.

In mid-2005 two aspects of Russian legal development deserve to command attention, at least in my view. The first relates to the efforts of the Putin administration to address the redistribution of wealth concentrations and corruption that have proved to be a major legacy of the privatisation programmes dating from the early 1990s. The Khodorkovsky/Lebedev proceedings, still under appeal, are one, but not the only symptom, of this policy, and the legal system has been a major vehicle and instrument for achieving this end.\(^2\) The roots of these policies, in my view, are not merely that some have more and some less, or an exercise in eliminating a potential political rival. The property that was privatised in Russia actually, as a matter of law, was in the indivisible ownership of all Soviet citizens, so that the eventual massively unequal ‘distributions’ of that property amounted to not merely what seems to be an unfair accumulation,\(^2\)

but the actual deprivation of individuals of their property in which they had a legal interest.

Foreign investors are said to be uneasy or even alarmed at State policies aimed at affecting a redistribution or recovering unlawfully alienated State property from the present owners. Even if violations of privatisation procedures are conceded, they argue that the passage of time should be taken into account and that some sort of period of limitations imposed upon legal recourse. The Russian preoccupation with legal formalities and the legal consequences of failure to comply with them is, in degree at least, a part of the Russian legal tradition that is at odds with the West. On the other hand, many investors, both Russian and foreign, failed to undertake proper due diligence on the objects of their investment or resorted to 'informal' (read: illegal) means when acquiring their investments. Under Russian procedural models (and privatisation legislation was a body of procedural law), including the civil, arbitrazh and criminal procedure codes, transactions with material failures to comply with legal formalities are much more susceptible to attack than in our own legal system.

The same mental set carries over to the entire procedural model(s) of the civil and criminal law. Notwithstanding reforms, Russian law places great emphasis upon the procedural model producing the ultimate truth of a matter and is reluctant to ‘guillotine’ proceedings if at some future time, even years in the future, newly-discovered circumstances would dictate a different result. Russian law is not indifferent to procedural error in trials that may prejudice the result for reasons of due process, but it does place a different value and weight upon these. These considerations, together with an aggressive tax auditing policy and the embryonic application of Western tax principles, are causing tax returns from past years to be reopened and re-evaluated. Foreign audit companies and law firms, who blessed those reports without qualification as to the premises on which the filings were made, may have cause to regret doing so.

In another sense the above considerations are symptomatic of a different Russian administrative tradition whose roots need not detain us here but nonetheless differ significantly from the Western
considerations. It is perhaps this tradition that is causing, and in my view will continue to cause, the Russian Federation to lose cases at the Court for Human Rights in Strasbourg. It is not merely that Russian normative legal acts may depart from human rights standards (a feature they share with many European countries), but that the philosophy and patterns of implementation, though consistent with Russian tradition and expectations, are not consistent with European traditions. Here perhaps is the measure of difference between Russia and the West, and the antidote lies less with the legislator than with the civil service. I would suggest that in the early Strasbourg cases Russia has been a rather easy mark, so blatant have the differences been. As Russia becomes more comfortable with European behavioural patterns and expectations, these differences will blur and, I would hope, enforcement patterns would become more similar.

It may be that the Russian administrative law is the last great frontier for law reform. Truly gigantic in its scope and reach, the Russian administrative tradition is deeply indebted to the Russian and Soviet past. This is not a matter of “reorganisation”, which Russia implements episodically, as do other countries, and as it is doing at the moment. Indeed, the federative character of Russia imposes both special burdens and special opportunities for addressing State administration on a truly vast territory. It is rather the emergence of a new administrative culture that is required, expressed in legislation and elsewhere, and this culture needs to be in consonance with the limited State envisaged in the 1993 Russian Constitution. Russia needs (and has) a concept not only of law and a legal system, but also a concept of “non-law”, of domains in which the State should refrain from interfering (which it does not have).
The Judicial System in Practice

Karinna Moskalenko

It is an unfortunate and well known fact that human rights in Russia do not have due level of protection. Torture and prison conditions, excessive application of detention on remand, frequent use of inadmissible evidence, unfair trials and political persecution are only some of the of human rights violations commonly committed in the Russian Federation. If one considers the abuses of law in Chechnya and neighboring territories, of disappearances, arbitrary arrests, killings, corruption and attacks on the independent media, it becomes clear that this is a systemic problem.

In a democratic society, social conflicts are resolved in courts, but in Russia it is nearly impossible to impartially examine any of the above issues in a court of law. The Russian judicial system is the most crucial instrument of human rights protection. The judiciary’s lack of independence in Russia does not leave room for enforcing the rule of law and providing people with the right to a fair trial.

In the early 1990s judicial reform commenced, and much was accomplished. An important achievement to note is that, all actions, decisions, miscarriages of justice and other abuses by authorities finally fell within the scope of judicial examination. This represented an important step forward. The independent and impartial judiciary stood a real chance to become the cure for mass arbitrariness. However, by the end of the 1990s, the process rolled back. It is significant that the complete perversion of judicial reform, which can be seen now, occurred simultaneously with the refusal of democratic developments in the country.

‘Spy’ cases

At the end of the 1990s, the trials of so-called ‘spies’ began. Many of these ‘spies’ were simply determined to be spies, without any evidence to support the claim. It is clear that these trials were
necessary because they indicated the secret services’ return to power. The drawing of the image of ‘The Enemy’, which started during the trials, has logically resulted in ‘the fifth column’, a remark recently made by one of the main Kremlin ideologists, Mr. Surkov. At the very moment that human rights lawyers and activists defended the spies, they became ‘enemies’ themselves.

As more became known on these cases, it was clear that they were fabricated and that the trial proceedings had been conducted with numerous violations, including the manipulation of the jury system, a new tool of the newly reformed judicial system. The implementation of a jury system turned out to be the most vulnerable element of the reformed judicial system. The case of Mr. Danilov is one example of this jury manipulation.

**Terrorism victims**

Cases involving victims of terrorism showed a lack of due investigation, disregard for terrorism victims’ interests, both in civil cases with regard to compensation of their pecuniary damage and concerning their procedural rights as victims in a criminal case. Relatives of many victims of the terrorist attacks, including, the bombing of houses and the taking of hostages in Nord-Ost and Beslan continue unsuccessfully to try to restore victims’ rights and to obtain true information from the courts. Relatives of the victims have filed suits and complaints mainly against the State authorities, stressing that the authorities have not complied with their obligations with respect to the right to life. Unfortunately, Russia’s response to UNHRC decisions shows that the authorities and the courts do not recognise the concept of positive obligations of the State.

**The Nord-Ost case**

In the case of Nord-Ost, even after two and a half years, the prosecutor’s office has still not released adequate information about the events which took place. Up until this point, the prosecutor’s office has not produced information about the circumstances of
death of the hostages or about the level of medical assistance provided to them immediately after the rescue operation. Information about the precise number of persons killed is still contradictory and information about the poisonous substance, used against the terrorists (and the hostages) has still not been disclosed. Relatives of the victims insist that the primary goal of the rescue operation was not to save the hostages, but to kill the hostage-takers.

**Cases about electoral fraud**

These cases about electoral fraud have not received fair trials by independent courts. The Supreme Court of Russia avoided giving an impartial evaluation of evidence proving mass violations during the 2003 election campaign, although they were widely covered by the international community in the publication of the OSCE report and the Council of Europe’s Parliamentary Assembly statement. Following the judgment of the Supreme Court in 2005, preparations are being made to resubmit the case to the European Court of Human Rights. Applicants have decided to resubmit the case so that future elections may be free and fair.

**The Yukos case**

Observers in the Yukos case identified tremendous violations not only with regards to the principles of due process but also against the very idea of justice. This trial demonstrated that the judiciary could ignore rules, human rights, and clear evidence, in its submission to pressure by the executive. The court decided on his detention in violation of both domestic and international norms, without a request from the prosecution and without bringing the parties before a court hearing. It was the General Prokuratura who selected the court to hear this case, going beyond the rules on court jurisdiction. It is necessary to mention that the case against Khodorkovsky has been re-opened after receiving a very special document – an Instruction Letter of the Russian President Mr. Putin. Although the case-file does not contain this very document, there is, however, a detailed reply from the Procurator General to this
Instruction Letter. It is not understood how President Putin is allowed to instruct the head of the main prosecutorial body on legal questions. This case also highlights the ease of dismissing a disagreeing judge from office in Russia.

The Parliamentary Assembly on Yukos case decided to recommend:

1. To ensure open trial for Aleksei Pichugin
2. To ensure the right to freedom before the judgment for Khodorkovsky
3. To ensure independent medical examination for Lebedev

Russian authorities have not yet implemented any of these recommendations.

Chechen cases

Issues surrounding the Chechen cases include, impunity for crimes against the population, failure to conduct impartial and thorough investigation and, most recently, the practice of intimidation and harassment of human rights activists working in this area.

Conclusion

One may suggest that the above listed cases are exceptional and that they do not characterise the Russian judiciary as a whole. However, in a democratic society no exceptions of such a sort should be allowed. Politically sensitive cases, as well as ordinary cases, should be considered in accordance with fair trial standards.

Unfortunately, in Russia, politically sensitive and routine cases are tried in a strikingly unfair manner. The only difference is that attention attracted by politically important case, serves to clearly demonstrate all the deficiencies of Russia’s judicial system.

The main question is: Are the judicial violations, resulting from a failure of the authorities to prevent mass violations in the country, or
are the impunity, corruption and the lack of judicial independency a result of the political course chosen by the Government?

In my opinion, the answer lies in the actions of concrete political steps, including the centralisation of power, changes to the election system and the destruction of the principle of the separation of powers.

The destruction of the separation of power has gone beyond a fusion of the executive and legislative branches and is now rife throughout the judicial system. In fact, the role of the Kremlin’s administration in the selection of judges of different levels is becoming definitive.

The judicial branch should and must be a decisive instrument for the establishment of a rule of law and the effective protection of human rights in Russia. This will be achieved only if the judiciary enjoys independence and demonstrates impartiality. At present, the judiciary in Russia demonstrates a lack of independence, inefficiency and only mediocre professional skills. In today’s Russia, the judiciary is the most criticized institution after the police (militia).

The current situation has been influenced by several new trends that need to be reversed. The first priority should be to reform the procedure for the selection, appointment and dismissal of judges. If this is not done, judges will continue to be appointed by the Kremlin administration and they will serve the needs of the executive and not the interests of the Russian people.
Increasing Authoritarianism and the Causes of Public Discontent

Maria Lipman

Over the past six months, the authoritarian trend in Russia has toughened and the crackdown on freedoms has increased. Major developments highlighting the above-mentioned trend include the trial and sentencing of Mikhail Khodorkovsky and Platon Lebedev, electoral reform and the expansion of control over the media. These have been driven by a single goal: to maintain the status quo in the Kremlin beyond 2008 when President Putin’s second and last constitutional term expires; to yield power would be to yield control of the property spoils gained over time in office and, most likely, to lose more than just property.

The trial of Khodorkovsky and Lebedev, in which both men were sentenced to nine years in a labour camp, was a blatant violation of the rule of law and a striking illustration of the increasingly tight control by the executive branch of the judiciary.

Some of the major negative effects of the Khodorkovsky trial and conviction include:

- deepened mistrust between the public and government (people at large may not sympathise with Khodorkovsky, but they are not at all blind to the major injustice of the trial. There is abundant polling data to confirm this);
- The destruction of incipient trust between business and the state that was tentatively built during Putin’s first term. This in turn leads to negative economic consequences, such as capital flight, slowdown of economic growth and growing inflation. Intimidated business tycoons shy away from any initiative that the Kremlin may deem disloyal in order to concentrate on protecting themselves against harassment or worse;
- Encouraged corruption and abuse of authority by law-enforcement, tax inspectors and other administrative officials at all levels (seeing the Kremlin use various institutions to further its political goals, lower-level bosses feel free to do the same for their own self-seeking purposes).

2003 marked a definitive crackdown on the democratic checks and balances as control over national TV was established by the middle of the year. Later, big business was intimidated and subdued and after a stable pro-Kremlin majority in the Duma was put in place, political opposition basically ended.

The next major step came after the Beslan tragedy in September 2004 when Putin launched anti-democratic political reforms suggesting that popularly-elected governors be replaced by Kremlin appointees. The recently enacted political innovations have gone way beyond that one measure; they are aimed at consolidating the already existing pro-Kremlin legislative majority while simultaneously barring any new and independent political forces from the political scene.

Control over national television networks has been further tightened. Moreover, the Kremlin appears ready to expand its control over smaller and print media. It has resorted to the same technique that has been repeatedly used over the years of Putin’s presidency, namely, a change of ownership. Once a more compliant owner has been installed, the Kremlin may count on an ‘appropriate’ editorial line.

REN TV, a smaller TV network with an independent editorial line, was recently sold to a steel company owned by a loyal tycoon with no prior interest in the media business. Izvestia daily, a good quality paper with a well-known brand has been sold to Gazprom Media, a media holding owned by a state-controlled gas monopoly that was instrumental in the 2001 government takeover of Media MOST (formerly the biggest privately-owned media group that belonged to Vladimir Gusinsky).
This is not the end of critical media outlets: most Moscow dailies and weeklies, as well as several political websites and a radio station *Ekho Moskvy* maintain independent – and critical – editorial lines. The Russia that emerges from their pages is dramatically different from what can be seen on national television. It should be noted, however, that print runs of liberal mainstream publications rarely exceed one hundred thousand copies, and it is very rare for a disclosure in the print media to prompt a response from either the government or the public. While it may hardly be expected that the Kremlin will move to silence all critical voices, further crackdown is fairly likely.

If Putin and his aides ever had ideas about modernisation, they have abandoned them. Theirs is an anti-modernisation project based on passive masses alienated from decision-making, and a heavily centralized government taking decisions unhampereed by any competition from political opposition. The problem with this vision, though, is that it invariably leads to the deterioration of governance - to miscalculations, mistakes and failures. It is one thing to control politics, it’s quite another to control the country. The list of failures of recent months is truly alarming:

- The tragedy of Beslan, a terribly botched operation by special services that resulted in the deaths of over 300 people, most of them children;
- Increasing violence and destabilisation in the Northern Caucasus;
- Foreign policy disgrace in Ukraine;
- Failure of benefits-for-cash reforms launched in January;
- A deterioration of the general economic situation in spite of sky-high oil prices.

Chronic policy failures coupled with growing social expectations of the Russian people partly inspired by the Kremlin’s paternalistic, Soviet-style rhetoric have led to increasing public discontent.

Ample evidence of this discontent can be found both in the polls and in the streets. The most striking public protests took place in January in response to badly mismanaged benefits-for-cash reform. About
200 protest rallies were held in the course of January; altogether all over Russia about 200-300,000 took part.

The Russian government's response was that of confusion and disarray. Apparently caught off-guard by the public reaction, the government sought to placate the crowds and gave out money left and right.

Public protests demonstrate that people in Russia are unafraid and determined to stand up for their rights. It should be pointed out, however, that each of these rallies has a specific, and often materialistic, cause. There is no sign that social cohesion is growing: usually only those directly affected take part in protest actions; most actions are one-time events; they barely have broadly-recognised leaders. Rallies for political causes are usually tiny (a few dozen to a couple of hundred people).

The Kremlin is concerned about growing discontent, and this concern is further deepened by the 'colour revolutions' that recently took place in several post-Soviet countries.

The Kremlin's response is dual-faceted. The government shows caution so as not to antagonise the broad public. As a result, some of the long overdue reforms (health service, education) are likely to be put off.

On the other hand, the Kremlin has pursued a strategy aimed at blocking channels for political opposition. It includes the above-mentioned electoral reform, further crackdown on non-governmentally controlled media and a reinforcement of political propaganda on national television networks.

The Kremlin stands ready to preempt any political activism. While small-time youth groups may organise tiny rallies, the Kremlin has masterminded a Nashi youth group. While the purpose and actions of the group remain to be seen, its resources are impressive. Its leaders can afford to bring 60,000 young people to rally in one of Moscow biggest streets (as they did in May), pay for their travel and other expenses and have traffic blocked for the time of their action.
In July, some 3,000 activists were taken to a summer camp to work out and be lectured by the Kremlin propagandists.

Currently, potential political opposition is fully fragmented and demoralised, business elites are intimidated, atomised and concerned mostly about personal safety, while society is lacking social cohesion, a leader and a common cause. In the meantime, the Kremlin appears to have a strong advantage over Russian society in terms of resources, initiative and scope of activity. Another important advantage of the government is practically unlimited financial resources due to the gigantic influx of oil revenues. In the middle of 2005 the budget expenditure was increased by about $12 billion.

On the other hand, steadily deteriorating governance is fraught with scenarios that are hard to predict. Combined with the policy of increasingly plugging the channels of feedback from the public it might eventually lead to more explosive developments – that are unlikely, however, to be of democratic or liberal nature. Incompetent and inefficient governance might also lead to a rearrangement of the ruling elite – with the more sophisticated and sober-minded part of it snatching the initiative and saving Russia from further sinking into neo-Soviet political restoration and the ensuing economic downfall.
A Road Map for Reform

Grigory Yavlinsky

The battle for political power is once again heating up in Russia. The old oligarchs who got their property through shady privatizations are fighting the new oligarchs, the siloviki who came to power under President Vladimir Putin.

The old oligarchs replaced politics with intrigues and gerrymandering, spreading corruption to every branch of the government and eventually bringing Putin to power. They are now pretending to be ‘democrats’. The new oligarchs are pursuing precisely the same policies, but to the benefit of different individuals. They call themselves the state. Both groups have their professional liberals - whether politicians hired for a princely sum by the old oligarchs or appointed to highly visible posts by the new oligarchs.

Neither group has come up with socially significant goals for Russia’s development. They have no concept of its place in the world or of the values that would encourage Russia to discover its identity at last. Thus, it is time to return to the subject of economic and political reform and come up with a real plan of action.

Reform has become a catchword in Russian political life over the last 20 years. But change does not equal reform. Reform is a conscious and targeted transformation of society according to a particular plan. Reform requires a clear vision of the final goal.

Even if change is conscious, it still is not necessarily reform. To be reform, change must lead to the modernization of society by encouraging its complexity and the pursuit of certain positive, time-honoured ideals. Otherwise, what happened under Hitler or Pol Pot could also be called reform.

3 The article was reprinted with permission of the Moscow Times, where it first appeared on p. 8 Friday 17 June 2005
Based on this definition, there are no reforms in Russia today.

But what should the goal of reform be? The way things stand, the country's lack of a clear and consistent notion of the future is being compensated for by abstract slogans of 'greatness' and by an amorphous centristism. We have to define what values to cultivate in Russia, a country with a contradictory past and a contradictory present. We need to know what position we want to occupy in the world.

For Russia, there are only two possible paths. We can become part of the core of the world capitalist economy - the European path - or we can look for a spot on the periphery. There is no third, special Russian way. Understandably, some fear the European path will mean a loss of sovereignty. Yet the only alternative is the sidelines and other limits on sovereignty, limits that would be informal but significant.

Certain basic human and civic values separate the core countries from the periphery: property rights, personal liberty and notions of social justice. Modernization without a human face will unavoidably land us among the poor and disenfranchised nations and will lead to precisely the opposite of modernization.

Thus, the first step toward real modernization and effective reform is adopting human rights and individual liberty as our basic values. We need to respect a person's right to property while simultaneously striving for social justice. We need to set the institution of rights above notions of political expediency and the subjective understanding of certain powerful individuals. The concept of a state based on civil rights and liberties and social justice should become a compass on the road map to Russian reform.

First, we need to address the question of power. The current authorities in Russia, meaning both the President and the entire system of state power, are the product of a decade and a half of major political upheaval. These years saw the repeated disruption of political continuity. The authorities frequently lied and shirked their
responsibilities. This naturally affected the government's legitimacy in the eyes of the public. While this never took the form of direct and open contention, Russians have become cynical and sceptical about every move state institutions make.

There is one huge and almost insurmountable obstacle to reforming this system. For reformers to have a chance at success, the people would have to have significantly more faith in state institutions, the authority of the law and government decisions than they do today. The state needs the additional legitimacy that comes from allowing a wider range of social and political groups access to power. In return, these new participants would pledge to uphold the constitutional order and respect the way the system functions.

In addition, the government should adopt a set of laws as a compromise that would limit the political influence of big business. Oligarchs could be kept at bay by increasing the transparency of economically important decision-making and by establishing clear, unambiguous ground rules for overturning government decisions that reflect the interests of particular groups or individuals and that did not follow the proper legislative channels.

Second, we need to address the issue of property and the concentration of assets that resulted from the privatization of Soviet state property. Today, the legitimacy of this property is in doubt, and this prevents big business from participating actively in modernizing reforms. There is no clear-cut way to legitimize privatization because the goal of protecting property rights conflicts with the aim of social justice, a necessary part of gaining consensus and guaranteeing the success of reform. Russia needs several new laws to address this problem.

The first set of laws should declare all privatization deals legitimate, except those that involved violent crimes, while instituting a new windfall tax to compensate society. The second set of laws should consist of functioning anti-monopoly laws and laws to limit capital concentration. The third set of laws would include legislation to guarantee that political donations and lobbying in the State Duma, government agencies and state media are transparent.
Like power, the problem of property must be solved via compromise. This means guaranteeing the inalienable rights of law-abiding owners while creating rules for using assets that were attained as the result of bureaucratic privatizations and through other non-market procedures. These rules could take different forms, but they need to minimize distortions of owners’ motivations in using their assets efficiently while simultaneously ensuring that assets are used in a way that conforms to society's goals.

This same principle could be applied to property acquired in other ways besides privatization. Guarantees of rights to property attained in ways that did not violate criminal law but involved tax evasion could be granted in exchange for certain limits on this property's use, such as a temporary requirement that money be held in Russian banks, or post factum payment of income tax in return for an official amnesty of tax violations.

Finally, recent events in Ukraine have led to talk of ‘deprivatization’. Even if Ukraine’s review of privatization deals proves successful, it will not work in Russia. Yet Russia does need a law on deprivatization to reclaim state property privatized by means of a serious crime.

Third, we need to consider how to make legal arbitration into an independent institution. Just as a complicated sports match cannot work without a neutral referee, economic and political systems cannot function without neutral arbitrators. This role must be played by civil and arbitration courts that should only be influenced by the letter of the law.

The Russian courts as they currently exist are the product of social conditions radically different from today's. They are staffed by people accustomed to paying more attention to political and economic interests than to the law. It would be wrong to ignore this while planning reform, yet it would be politically and technically impossible to fire every single judge and official. For this reason, we need to let bygones be bygones while firmly increasing professionals' responsibility for any future deviation from the law. This kind of
amnesty would mean, for instance, avoiding punishment of judges for past, unjust verdicts. At the same time, we need to establish a way to review questionable verdicts: The numerous victims of these verdicts continue to languish behind bars or remain deprived of their rights.

After these preliminary amnesties and laws, Russia will be ready for real reform, ready to become a modern, rights-based society.
Blueprint for Russia

Jennifer Moll

The previous contributions have covered many of the major issues facing Russia today. Through each author’s expertise, we have been able to compile a just and broad range of opinions to outline our distinctive Blueprint for Russia. As we summarise our policy recommendations, it is important to remember how far Russia has come in the past 14 years. We do not seek to trivialise the important steps taken, merely to re-invigorate discussions to lead to better steps in the future. Just as much has been done, much still remains.

What the Russian Government Should Do:

As Erochkine noted in his chapter ‘Russia and its Oil: Friends or Foes?’, the largest issue still facing Russia is centred around Russian politics. Combating the three great Russian ‘diseases’, as identified by Andrew Meier, of greed, corruption and bureaucracy will not be an easy task, but it is absolutely essential for Russia’s continued progress. These three diseases have retarded the economic and political development of Russia by weakening institutions, stifling development of SMEs, attacking property rights and therefore resulting in the perception that the system is less fair.

If, as Stein argues, transparency and the perception of fairness are the most important facets underlying a democratic system, than Kasyanov’s observation that corruption has assumed a new intensity bodes poorly for Russia. As Putin’s reforms continue to amass power for his regime and for United Russia, the lack of accountability has led to an increased number of abuses and corruption.

With fewer parties in power, the populace will increasingly associate current problems with the Putin administration; over time it is also likely that they will become more distrustful of government in general. Furthermore, the lack of a durable multi-party system and fewer opposition parties gives those in power increased access to
administrative resources which have been used arbitrarily to disrupt the ‘democratic rule of law’.

Instead of fostering democracy, Putin’s reforms have removed democratic accountability one step further from the people. Increasing the minimum number of registered members of a political party from 10,000 to 50,000 with membership throughout the Federation’s regions will undoubtedly curtail the development of local or regional political activism geared at specific interests. A lack of political activism not only impedes Russian democracy, but strengthens the hand of conservatives to unite those who have been pushed aside.

This system not only diminishes accountability and increases the arbitrary nature of those in power, it undermines the Constitution as well. Just as it is now the time to diversify the economy for economic expansion, as Klepach argues, it is also the time to improve the political and investment climate. Kasyanov is correct to argue that a rapid deterioration of the situation cannot be ruled out. It is important to positively affect change as circumstances permit.

By moving the legislative and judicial branches, as well as the media and opposition, from being outside of the system to being an integral part of it, Putin has paradoxically decreased the possibility for real debate in Russia and has therefore distanced himself from the reality of the Russian situation, to the detriment of all. Embracing reality will not be enough, unfortunately. Not only must laws and judicial procedure be fair, they must be seen as being fair. The current system where innocence and guilt are seen as being influenced by personal and/or political loyalty must end.

Only after these concrete steps are taken can trust be restored. For democracy to truly take hold, however, a new administrative culture must emerge in Russia. Professor Butler’s calls for Russia to adopt a concept of ‘non-law’ – or a clear guideline of where the state cannot and should not interfere – are clearly necessary. At the heart of this new administrative culture must be the understanding that civil servants serve the people, not those in power.
What Russia’s Western partners can do:

The West must begin to work with the Russian state, and not just an idealised president. Far from advocating ‘further and faster reform’, the West merely advocates that Russia should, in the words of one liberal Russian politician, ‘realise its own Constitution’. It is precisely because of the West’s strategic partnership and friendship with Russia that we must take an active interest in its development.

There are numerous reforms which should be implemented, which will benefit both the Kremlin and ordinary Russians, and it is in these areas where we must concentrate. Where we can, we should work consistently to hold the Russian government to international agreements it has already signed. Indeed, Yavlinsky’s calls for Russia to embrace human rights and individual liberty as the state’s basic values must be supported by consistent European initiatives calling for the same. The best paths to influence could be in such comparatively-neutral areas as legal and regulatory reform.

Europeans and Americans alike must now work more consistently and effectively to persuade Russia’s leadership that respect for the three branches of government, the rule of law and civic participation will not only open doors for better relations with the West, but will more importantly, promote domestic stability and prosperity.
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Oleg Panfilov
Translated by Maria Blake
June 2005
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The re-emergence of the traditions of Soviet propaganda since 2000 represents a new era for the Russian media and domestic policy. This development has been facilitated by the dominance of Soviet-era journalists: up to 70 per cent of those currently working in the mass media in Russia were Soviet educated or employed by the Soviet media, where propaganda and counter-propaganda were considered an important part of state ideology.

The widespread presence in government posts of Putin’s former KGB and FSB colleagues has also fostered this revival of Soviet-style propaganda. Their actions and decrees are evidence of a belief that it remains essential for Russian society to be dependent on regular dosages of manipulated information for Russia, and the reign of President Putin, to endure.

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After almost a year since the last State Duma election and Vladimir Putin's re-election, few people remember how many voters supported the part of power – United Russia – or the large gap between Putin and the runner-up, communist Nikolai Kharitonov. Opposition calls for a recount of the Duma election went nowhere, and many questions that came up as a result of the last electoral cycle remain unanswered.
Yet, many of these questions are crucial for understanding the present and future of the Russian electoral landscape, and hence the future of the country’s democratic development. The Russian electorate is now far less predictable in its political preferences than in the first decade of modern Russian political history. Under such conditions, the prospects for the formation and development of an effective multi-party system appear quite bleak.

**LOSING GROUND? RUSSIA'S EUROPEAN COMMITMENTS TO HUMAN RIGHTS**
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Europe has long desired a Russia that is both stable and governed by a democratic rule of law. This pamphlet analyses recent trends in three areas of human rights observance in Russia: the right to free and fair elections, freedom of expression, and the right to due legal process and a fair trial. In each case, it identifies significant departures from Russia’s international obligations in the Council of Europe and OSCE. The pamphlet also discusses Russia’s troubled relationships with the OSCE and Council of Europe in order both to give policy recommendations for improving them and for advancing the protection of human rights in Russia.

**KREMLIN ECHO: THREE VIEWS ON PRESIDENTIAL POWER, LAW AND THE ECONOMY**
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As the title ‘Kremlin Echo’ suggests, there are various interpretations of the effects of Vladimir Putin’s policy on the rule of law in Russia, not only from abroad, but within the Kremlin walls as well. Andrei Illarionov, an Economic Advisor to President Putin, gave several scathing criticisms of Putin’s reforms before he stepped down as Putin’s personal representative to the ‘Group of Eight’ on 4 January 2005. His interview on 30 December 2004 on Ekho Moskvy Radio has been translated by the Federal News Service and has been
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In the preface, Andrew Jack explores President Putin’s contest with Yukos as he tries to reassert his power over a broken system. Konstantin Sonin, in his piece entitled ‘Putin’s Rule of Law is Mere Rhetoric’ analyses Putin’s recent political reforms, and its repercussions on the Russian economy and Constitution.

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