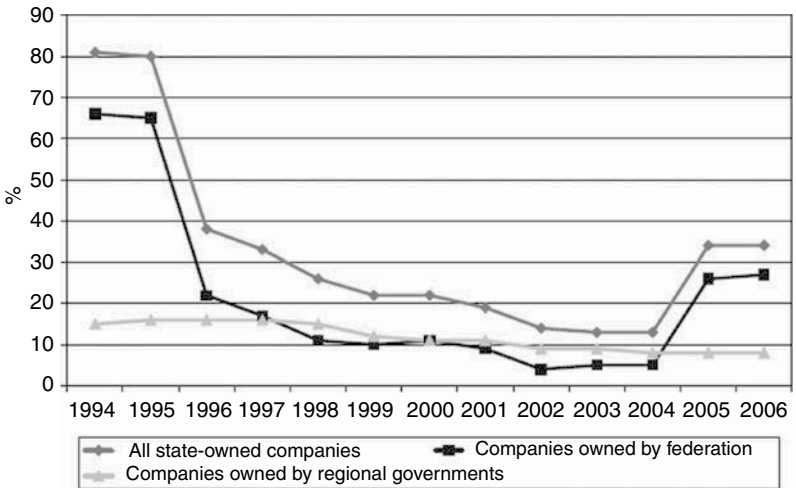


Appendix 1

State's Share in Oil Production, 1994–2006 (as % of Total Oil Production)



Source: Julia Kuzsnir and Heiko Pleines, 'The Russian Oil Industry between Foreign Investment and Domestic Interests' in *Russian Analytical Digest*, 18 September 2007, p. 14.

Appendix 2

Results of Loans-for-Shares Privatization in the Oil Industry

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Name of oil company	Trust auctions, 1995					Collateral auctions, 1996–1997			
	Stake under auction (%)	Loan provided (US\$m)	Auction date	Organizer for auction	Auction winner	Min. sale price (US\$m)	Auction date	Price paid	Auction winner
Surgut-neftegaz	40.12	88.3	Nov 95	ONEKSIM bank	Surgutneftegaz pension fund	74	Feb 97	78.8	Surgutfondinvest (linked to Surgutneftegaz)
LUKoil	5	35.01	Dec 95	Imperial Bank (LUKoil affiliate)	LUKoil Imperial Bank	43	Jun 97	43.6	LUKoil Reserve-Invest
YUKOS	45	159	Dec 95	Menatep Bank	Laguna (Menatep affiliate)	160	Nov 96	160.1	Monblan (Menatep affiliate)
SIDANKO	51	130	Dec 95	ONEKSIM bank	MFK (part of ONEKSIM bank)	129	Jan 97	129.8	Interros Oil (part of ONEKSIM bank group)
Sibneft'	51	100.1	Dec 95	Menatep Bank	NFK, SBS (linked to Sibneft')	101	May 97	110	FNK (offshoot of NFK)

Sources: Valery Kryukov and Arild Moe. *The Changing Role of Banks in the Russian Oil Sector*. London: Royal Institute of International Affairs, 1998; Nat Moser and Peter Oppenheimer. 'The Oil Industry: Structural Transformation and Corporate Governance'. In *Russia's Post-Communist Economy*, eds, Brigitte Granville and Peter Oppenheimer. Oxford: Oxford University Press, 2001; and *Russian Economic Trends*, 1997.

Notes

1 Introduction to the Policymaking Process

1. During the last few years of the Soviet Union, *kontserny* or commercially managed state enterprises were formed, particularly from departments of ministries.
2. The data in this section are from 'PIW's Top 50: How the Firms Stack Up', *Petroleum Intelligence Weekly* 2003 (available at <http://www.energyintel.com>); *OECD Economic Surveys 2004: Russian Federation* (Paris: Organisation for Economic Co-operation and Development, 2004), pp. 85–86; and *Russia Oil & Gas Yearbook 2004: Counting Barrels* (Moscow: Renaissance Capital, July 2004), pp. 19, 34 and 81. The remaining volume of oil production and reserves is accounted for by over 100 independent oil producers and joint ventures.
3. See Appendix 1 for the state's changing share in oil production.
4. See Marshall I. Goldman, *The Enigma of Soviet Petroleum: Half-Full or Half-Empty?* (London: George Allen & Unwin, 1980), p. 21. For a brief period, Tsarist Russia even outranked the United States as the world's largest oil producer (*ibid.*, Table 2.1, pp. 14–15). For accounts of the development of the Tsarist and Soviet oil industry by senior industry leaders, see Lev Tchurilov, *Lifeblood of Empire: A Personal History of the Rise and Fall of the Soviet Oil Industry* (New York: PIW Publications, 1996); and Rasul Gouliev, *Oil and Politics: New Relationships among the Oil Producing States – Azerbaijan, Russia, Kazakhstan, and the West* (New York: Liberty Publishing House, 1997).
5. This was a typical characterization of the Soviet economy, as reflected in works by Goldman, *The Enigma of Soviet Petroleum*, p. 91; and Margaret Chadwick, Machiko Nissanke and David Long, *Soviet Oil Exports: Trade Adjustments, Refining Constraints and Market Behaviour* (Oxford: Oxford University Press, 1987), p. 81.
6. Data on oil and gas from Jennifer I. Considine and William A. Kerr, *The Russian Oil Economy* (Cheltenham: Edward Elgar, 2002), Table 5.18, p. 138; and Chadwick, Nissanke and Long, *Soviet Oil Exports*, Table 5.9, pp. 82–83. It appears that Soviet oil exports to the West were deployed as a trade-balancing mechanism to finance imports of grain and technology from those countries, rather than as a foreign policy tool. See *ibid.*, pp. 67–97; and Thane Gustafson, *Crisis amid Plenty: The Politics of Soviet Energy under Brezhnev and Gorbachev* (Princeton, New Jersey: Princeton University Press, 1989), pp. 263–285.
7. Figures cited by Lyuba Pronina, 'Weapons Sales: The Peace Dividend's Evil Twin', *St Petersburg Times*, 25 September 2001; and Aleksey Nikol'skiy, 'Nekazhdyy god SSSR polluchal takie summy v valyute', *Vedomosti*, 24 October 2005.
8. Yuriy Shafranik and Valeriy Kryukov, *Zapadno-Sibirskiy Fenomen* (Moscow: Neftegazovaya vertikal', 2000), p. 4. Shafranik is a former general manager of

- the Langepas oil production association (1988–1990), governor of Tyumen' oblast' (1991–1992) and Minister of Fuel and Energy (1993–1996). For a similar perspective, see Yegor Gaidar, *Collapse of an Empire: Lessons for Modern Russia*, trans. Antonina W. Bouis (Washington DC: Brookings Institution Press, 2007), pp. 100–109.
9. Quote by a Soviet official as cited by Alexander Arbatov, Vladimir Feygin and Victor Smirnov, 'Unrelenting Oil Addiction', *Russia in Global Affairs*, no. 2 (April–June 2005, available at <http://eng.globalaffairs.ru/printver/914.html>).
 10. See William Tompson, 'The Price of Everything and the Value of Nothing? Unravelling the Workings of Russia's Virtual Economy', *Economy and Society* 28, no. 2 (May 1999); Douglas B. Reynolds, 'Soviet Economic Decline: Did an Oil Crisis Cause the Transition in the Soviet Union?', *The Journal of Energy and Development* 24, no. 1 (2000): 65–81; Stephen Kotkin, *Armageddon Averted: The Soviet Collapse 1970–2000* (Oxford: Oxford University Press, 2001); and Yegor Gaidar, 'The Collapse of the Soviet Union: Lessons for Contemporary Russia', Lecture delivered at the American Enterprise Institute in Washington DC, 13 November 2006.
 11. From Gooheon Kwon, 'Post-crisis Revenue Developments in Russia: From an Oil Perspective', *Public Finance and Management* 3, no. 4 (2003), p. 508; *Oil Sector Report* (Moscow: Troika Dialog Research, May 2001), p. 88; and *Russian Federation: Statistical Appendix* (Washington DC: International Monetary Fund, May 2003), Table 31, p. 37.
 12. For an explanation of how the data on oil's share in Russia's GDP growth were derived, and why it differs from the 9% cited in official Russian statistics, see *Russian Economic Report* (Moscow: World Bank Group, Russian Federation Country Office, February 2004). Estimates of the oil price elasticity of Russian GDP growth vary widely. The figure cited in the text is used by the World Bank, the basis of which is explained in *From Transition to Development: A Country Economic Memorandum for the Russian Federation* (Moscow: World Bank Group, Russian Federation Country Office, 2004), pp. 10–11. Russia's Ministry of Finance calculates that the effect is less than half of the World Bank's figures, whereas a report by the Bank of Finland claims that it is three times higher. See *OECD Economic Surveys 2004: Russian Federation*, p. 29; and Jouko Rautava, 'The Role of Oil Prices and the Real Exchange Rate in Russia's Economy', in *BOFIT Discussion Papers* (Helsinki: Bank of Finland's Institute for Economies in Transition, 2002), p. 18.
 13. Figures on weapons sales are from Konstantin Makienko, 'Financial Results of Russian Arms Trade with Foreign States in 2004', *Moscow Defence Brief*, no. 1 (2005).
 14. Lilia Shevtsova, 'The Limits of Bureaucratic Authoritarianism', *Journal of Democracy* 15, no. 3 (2004), pp. 71–72.
 15. Today, 90% of coal in Russia is produced by privately owned companies, up from 5% in 1993. See Yuri Bobylev and Jacek Cukrowski, 'Russia: Bank Assistance for the Energy Sector', in *World Bank Operations Evaluation Department Working Paper* (Washington DC: World Bank, 2002), p. 23; and Igor Artemiev and Michael Haney, 'The Privatisation of the Russian Coal Industry: Policies and Processes in the Transformation of a Major Industry', in *World Bank Transition Economies Working Paper* (April 2002), p. 6.

16. In June 2005, the state agreed to increase its shareholding in Gazprom to just over 50% at a cost of US\$10 billion. The transaction was carried out in stages and was finally settled in December 2005.
17. See Matthew J. Sagers, 'The Russian Natural Gas Industry in the Mid-1990s', *Post-Soviet Geography and Economics* 36, no. 9 (1995), p. 524.
18. See 'PIW's Top 50'.
19. A profile of leading oil producing countries is available from the Energy Information Administration (<http://www.eia.doe.gov>).
20. S. P. Peregudov, N. Yu Lapina and I. S. Semenenko, *Gruppy interesov i Rossiyskoe gosudarstvo* (Moscow: Editorial URSS, 1999), p. 100.
21. Quote by Putin as cited in Bulat Stolyarov, 'Kreml' khochet zabrat' nedra', *Vedomosti*, 26 July 2002.
22. Philip Hanson and Elizabeth Teague, 'Big Business and the State in Russia', *Europe-Asia Studies* 57, no. 5 (July 2005), p. 662. For a literature survey of the overwhelmingly negative perception of the role of tycoons in Russia's economic development, see Stephen Fortescue, *Russia's Oil Barons and Metal Magnates: Oligarchs and the State in Transition* (Basingstoke: Palgrave Macmillan, 2007), pp. 9–18. The term 'oligarch' (or rule by a few) is widely used in the popular press to refer to Russia's richest businessmen. While the term may have been briefly applicable during the mid-1990s, its continued use in scholarly literature is less appropriate. For this reason, 'tycoons', 'magnates' or 'leading businessmen' are used instead in this book, except where the term 'oligarch' is part of a quotation.
23. A sample of works that focus on the role of big business includes David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (Oxford: Public Affairs, 2002); Chrystia Freeland, *Sale of the Century: The Inside Story of the Second Russian Revolution* (London: Little, Brown and Company, 2000); Juliet Johnson, *A Fistful of Rubles: The Rise and Fall of the Russian Banking System* (Ithaca: Cornell University Press, 2000); Marshall I. Goldman, *The Piratisation of Russia: Russian Reform Goes Awry* (London: Routledge, 2003); Peregudov, Lapina and Semenenko, *Gruppy interesov i Rossiyskoe gosudarstvo*; and Aleksey Mukhin, *Biznes-elita i gosudarstvennaya vlast': Kto vladeet Rossiei na rubezhe vekov?* (Moscow: Centr Politicheskoy Informatsii, 2001).
24. For empirical studies, see Daniel Bollinger, 'The Four Cornerstones and Three Pillars in the "House of Russia" Management System', *Journal of Management Development* 13, no. 2 (1994): 49–54; Alexander I. Naumov, 'Hofstede's Measurement of Russia: The Influence of National Culture on Business Management', *Management* 1, no. 3 (1996): 70–103; Detelin S. Elenkov, 'Differences and Similarities in Managerial Values between US and Russian Managers: An Empirical Study', *International Studies of Management and Organisation* 27, no. 1 (1997): 85–106; and Fred Luthans, Dianne H. B. Welsch and Stuart A. Rosenkratz, 'What do Russian Managers Really Do? An Observational Study with Comparisons to US Managers', *Journal of International Business Studies* 24, no. 4 (1993), p. 742. For a discussion of the differences between *nomenklatura* managers and Western managers, see Geert Hofstede, 'Cultural Constraints in Management Theories', *The Academy of Management Executive* 7, no. 1 (1993): 81–94; and Sheila M. Puffer, 'Shedding the Legacy of the Red Executive: Leadership in Russian Enterprises', *International Business Review* 4, no. 2 (1995): 157–176.

25. David Holt, David A. Ralston and Robert H. Terpstra, 'Constraints on Capitalism in Russia: The Managerial Psyche, Social Infrastructure, and Ideology', *California Management Review* 36, no. 3 (1994), p. 129.
26. In comparison, there is a large volume of works on the role of energy companies in Russian foreign policy. They are variously perceived as agents of a neoimperialist foreign policy, or of using the state to further their commercial interests within the Commonwealth of Independent States and the West, or of acting in partnership with the state to forge a foreign policy that combines global, national and corporate interests. See, for example, Amy Meyers Jaffe and Robert A. Manning, 'Russia, Energy and the West', *Survival* 43, no. 2 (Summer 2001): 133–152; Douglas W. Blum, 'Domestic Politics and Russia's Caspian Policy', *Post-Soviet Affairs* 14, no. 2 (1998): 137–164; Robert Stowe, 'Foreign Policy Preferences of the New Russian Business Elite', *Problems of Post-Communism* 48, no. 3 (2001): 49–58; and Yakov Pappé, 'Neftyanaya i gazovaya diplomatiya Rossii', *Pro et Contra*, no. 3 (1997), available at <http://www.carnegie.ru/ru/pubs/procontra/55622.htm>.
27. See Eugene Khartukov, 'Russia's Oil Majors: Engine for Radical Change', *Oil and Gas Journal*, 27 May 2002; Eugene Khartukov, 'Russia's Oil Privatisation is more Greed than Fear', *Oil and Gas Journal*, 3 July 2000; Nat Moser and Peter Oppenheimer, 'The Oil Industry: Structural Transformation and Corporate Governance', in *Russia's Post-Communist Economy*, ed. Brigitte Granville and Peter Oppenheimer (Oxford: Oxford University Press, 2001); Valery Kryukov and Arild Moe, *The Changing Role of Banks in the Russian Oil Sector* (London: Royal Institute of International Affairs, 1998); David Lane, 'The Russian Oil Elite: Background and Outlook', in *The Political Economy of Russian Oil*, ed. David Lane (Lanham: Rowman and Littlefield, 1999); and Sergei P. Peregudov, 'Large Corporations as National and Global Players: The Case of Lukoil', in *Explaining Post-Soviet Patchworks: Actors and Sectors in Russia between Accommodation and Resistance to Globalisation (volume 1)*, ed. Klaus Segbers (Aldershot: Ashgate, 2001).
28. Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977), p. 194. See also Ralph Miliband, *The State in Capitalist Society* (London: Weidenfeld & Nicholson, 1969).
29. Donald D. Jensen, 'How Russia is Ruled', in *Business and the State in Contemporary Russia*, ed. Peter Rutland (Boulder: Westview Press, 2001), p. 53.
30. *Ibid.*, p. 53.
31. David Hoffman E., 'Putin Aims to Assure Tycoons: Russian Disavows Pressure by Police', *The Washington Post*, 29 July 2000.
32. Lindblom, *Politics and Markets*, p. 172.
33. David Fairlamb, 'Reining in the Oligarchs: Russia', *International Investor*, 1 November 1998.
34. Author's interview with Mr Nick Butler, group vice-president (Strategy), British Petroleum, 20 January 2005, London. The TNK–BP merger is Russia's largest foreign investment in the country to date.
35. As estimated by Peter Boone and Denis Rodionov, 'Rent Seeking in Russia and the CIS' (paper presented at the Tenth Anniversary Conference of the European Bank for Reconstruction and Development, London, December 2001), p. 3.

36. Chapter 3 contains a further discussion of the vulnerability of the Duma to inducements from other actors.
37. The figures are cited by Hoffman, *The Oligarchs*, p. 350.
38. Hoffman, *The Oligarchs*, p. 351.
39. For Khodorkovskiy's pre-1992 profile, see Hoffman, *The Oligarchs*, pp. 105–119; and for Potanin's see Freeland, *Sale of the Century*, pp. 121–126. Tycoons who were not part of the Soviet *nomenklatura* include Boris Berezovskiy (oil), Vladimir Gusinskiy (media magnate) and Aleksandr Smolenskiy (banker). For an account of how they became leading businessmen, see Hoffman, *The Oligarchs*.
40. See 'LUKoil officials win key Government Oil Posts', *Petroleum Economist*, July 2000.
41. 'Insiders' are groups that consider it important to develop close relations with government officials, and that have gained acceptance and been granted subsequent access by these officials. See discussion by Wyn Grant, 'The Role and Power of Pressure Groups', in *British Politics in Perspective*, ed. R. L. Borthwick and J. E. Spence (Leicester: Leicester University Press, 1984), pp. 132–138; and Jordan and Richardson, *Government and Pressure Groups*, pp. 30–31. For a discussion of the role of RSPD since 2000, see Tina Podplatnik, 'Big Business and the State in Putin's Russia, 2000–2004: Towards a New State Corporatism' (D.Phil. thesis, University of Oxford, 2005); Hanson and Teague, 'Big Business and the State in Russia', pp. 658–665; and Aleksey Zudin, 'Neo-korporativizm v rossiya? Gosudarstvo i biznes pri Vladimire Putine', *Pro et Contra* 6, no. 4 (Fall 2001): 171–198.
42. See the discussions by Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, Massachusetts: Harvard University Press, 1971); and Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities* (New Haven: Yale University Press, 1982).
43. Quote by Leonid Nevzlin, a partner in Menatep, a holding company which acquired YUKOS as a result of the auctions, as cited in Freeland, *Sale of the Century*, p. 166.
44. Olson, *The Rise and Decline of Nations*, p. 62. The same argument as applied to the post-communist transition is contained in Mancur Olson, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships* (New York: Basic Books, 2000).
45. See Joel S. Hellman, 'Winners Take All: The Politics of Partial Reform in Postcommunist Transitions', *World Politics* 50, no. 2 (1998): 203–234. Similar arguments are advanced by Olson, *Power and Prosperity*; Anders Aslund, 'Why Has Russia's Economic Transformation Been So Arduous?' (paper presented at the Annual World Bank Conference of Development Economics, Washington DC, 28–30 April 1999); and Robinson, 'The myth of equilibrium'.
46. Boone and Rodionov, 'Rent Seeking in Russia and the CIS', p. 20.
47. Quote by Andrey Melnichenko, Chairman of MDM Bank, cited in 'Russia: Back from the Brink', *Institutional Investor*, 1 February 2002.
48. As noted by David Vogel, *Fluctuating Fortunes: The Political Power of Business in America* (New York: Basic Books, 1989), p. 7; and Edwin M. Epstein, *The Corporation in American Politics* (Englewood Cliffs, New Jersey: Prentice-Hall, 1969), pp. 192, 221–222.

49. Graham K. Wilson, *Business and Politics: A Comparative Introduction* (Basingstoke: Palgrave Macmillan, 1990), p. 183.
50. Andrei Shleifer and Maxim Boyko, 'The Politics of Russian Privatisation', in *Post-Communist Reform: Pain and Progress*, ed. Oliver Blanchard et al. (Cambridge, Massachusetts: MIT Press, 1993), p. 39.
51. Andrei Shleifer and Daniel Treisman, *Without a Map: Political Tactics and Economic Reform in Russia* (Cambridge, Massachusetts: MIT Press, 2000), p. 17.
52. Quote by Leonid Abalkin, economic adviser to Nikolay Ryzhkov in the Gorbachev era, as cited in Lynn Nelson and Irina Kuzes, *Radical Reform in Yeltsin's Russia: Political, Economic and Social Dimensions* (New York: M E Sharpe, 1995), pp. 135–137.
53. A further discussion of this issue is in Chapter 2.
54. See Konstantin Smirnov, 'Staynyy instinkt', *Kommersant'-Daily*, 27 August 2001; and Zudin, 'Neo-koporativizm v rossiya?'.
55. For an in-depth discussion of bureaucratic rivalries as a form of 'bureaucratic capitalism', see Nodari Simonia, 'Economic Interests and Political Power in Post-Soviet Russia', in *Contemporary Russian Politics: A Reader*, ed. Archie Brown (Oxford: Oxford University Press, 2001).
56. Sergei Peregudov and Irina Semenenko, 'Lobbying Business Interests in Russia', *Democratisation*, 3, no. 2 (1996), p. 133.
57. Shleifer and Treisman, *Without a Map*, p. 17.
58. *Ibid.*, p. 17.
59. Georgiy Bovt, Sergey Zhikharev and Natal'ya Kalashnikova, 'Vlasti ne stesnyayutsya – za nee boryutsya', *Kommersant'-Daily*, 16 August 1995.
60. Stephen Sestanovich, 'Force, Money, and Pluralism', *Journal of Democracy* 15, no. 3 (2004), p. 42.
61. The book will adopt the term 'rational choice institutionalism' as favoured by B. Guy Peters, *Institutional Theory in Political Science: The 'New Institutionalism'* (London: Pinter, 1999); and Peter A. Hall and Rosemary C. R. Taylor, 'Political Science and the Three New Institutionalisms', *Political Studies* XLIV, no. 5 (1996): 936–957. Other terms to describe the same analytical framework include 'actor-centred institutionalism' (Scharpf), 'structure-induced equilibrium' (Shepsle) and 'actor-system dynamics' (Burns et al.). See Fritz W. Scharpf, *Games Real Actors Play: Actor-Centred Institutionalism in Policy Research* (Boulder: Westview Press, 1997); Kenneth A. Shepsle, 'Studying Institutions: Some Lessons from the Rational Choice Approach', *Journal of Theoretical Politics* 11, no. 2 (1989): 131–147; and Tom Burns, Thomas Baumgartner and Philippe Deville, *Man, Society, Decisions: The Theory of Actor-System Dynamics for Social Scientists* (New York: Gordon and Breach, 1985).
62. See works by Stefan Hedlund, *Russia's 'Market' Economy: A Bad Case of Predatory Capitalism* (London: University College of London Press, 1999); Michael McFaul, Nikolai Petrov and Andrei Ryabov, 'Introduction', in *Between Dictatorship and Democracy: Russian Post-Communist Political Reform* (Washington DC: Carnegie Endowment for International Peace, 2004); Michael McFaul, 'Institutional Design, Uncertainty and Path Dependency during Transitions: Cases from Russia', *Constitutional Political Economy* 10, no. 1 (1999): 27–52; Timothy Frye, 'A Politics of Institutional Choice: Post-Communist Presidencies', *Comparative Political Studies* 30, no. 5 (1997): 523–552; Maxim Boyko, Andrei Shleifer and Robert W. Vishny, *Privatising*

- Russia* (Cambridge, Massachusetts: MIT Press, 1995); and Shleifer and Treisman, *Without a Map*; and Yuko Adachi, 'Reconstitution of Post-Soviet Ex-State Enterprises into Russian Business Firms under Institutional Weakness', in *Centre for the Study of Economic and Social Change in Europe Working Paper no. 56* (School of Slavonic & East European Studies, London: July 2005).
63. For further discussion on the role of individual actors in politics, and how they have shaped institutions, see Keith Dowding, 'The Compatibility of Behaviouralism, Rational Choice and "New Institutionalism"', *Journal of Theoretical Politics* 6, no. 1 (1994): 105–117; Steven Lee Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge, Massachusetts: MIT Press, 1998); Juan Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America and Post-Communist Europe* (Baltimore: The Johns Hopkins University Press, 1996); and Michael Burton, Richard Gunther and John Higley, 'Elites and Democratic Consolidation in Latin America and Southern Europe: An Overview' in John Higley and Richard Gunther (eds), *Elites and Democratic Consolidation in Latin America and Southern Europe*, Cambridge: Cambridge University Press, 1992.
 64. William Roberts Clark, 'Agents and Structures: Two Views of Preferences, Two Views of Institutions', *International Studies Quarterly* 42, no. 2 (1998), p. 249.
 65. John C. Harsanyi, 'Rational-Choice Models of Political Behaviour vs. Functionalist and Conformist theories', *World Politics* 21, no. 4 (1969), p. 518. For a similar perspective, see Mark Irving Lichbach, *Is Rational Choice Theory All of Social Science?* (Ann Arbor: University of Michigan Press, 2003), p. 59.
 66. Herbert A. Simon, 'A Behavioural Model of Rational Choice', *The Quarterly Journal of Economics*, LXIX (1955), p. 118. The word 'satisficing' is a combination of 'satisfied' and 'sufficient'.
 67. Scharpf, *Games Real Actors Play*, p. 42. The definition of institutions as formal and informal structures is as per Larry L. Kiser and Elinor Ostrom, 'The Three Worlds of Actions: A Metatheoretical Synthesis of Institutional Approaches', in *Strategies of Political Inquiry*, ed. Elinor Ostrom (Beverly Hills, California: SAGE Publications, 1982); and Douglass C. North, 'The Contribution of the New Institutional Economics to an Understanding of the Transition Problem' (paper presented at the WIDER Annual Lectures 1, Helsinki, March 1997).
 68. Barnes relies more on an institutionalist-centred framework to explain the redistribution of property in the agriculture and industrial sectors, noting that the motives and strategies of participants were shaped by the 'incentives and opportunities the environment provides'. See Andrew Barnes, *Owning Russia: The Struggle over Factories, Farms and Power* (Ithaca: Cornell University Press, 2006), p. 232. While a rational choice institutionalist approach does not dispute this relationship, the difference is that it allows as well for the possibility that an individual can reshape the environment to his own benefit.
 69. For criticisms of rational choice institutionalism as an approach, see Donald Green and Ian Shapiro, *Pathologies of Rational Choice Theory: A Critique of Applications in Political Science* (New Haven: Yale University Press, 1994).

- Responses to the critique and a rejoinder are contained in Jeffrey Friedman (ed.), *The Rational Choice Controversy: Economic Models of Politics Reconsidered* (New Haven: Yale University Press, 1995).
70. See Scharpf, *Games Real Actors Play*; and Peter A. Hall and David Soskice, 'An Introduction to Varieties of Capitalism', in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, ed. Peter A. Hall and David Soskice (Oxford: Oxford University Press, 2001), pp. 6–7. A further discussion of the concept of a composite actor is found in James S. Coleman, *Individual Interests and Collective Action* (Cambridge: Cambridge University Press, 1986); and James S. Coleman, *Power and Structure of Society* (New York: W W Norton & Company, 1974).
 71. As cited by Valery Kryukov and Arild Moe, *Gazprom: Internal Structure, Management Principles and Financial Flows* (London: Royal Institute of International Affairs, 1996), p. 24.
 72. Although gas may also be transported in liquefied form, the volume of this trade at present is very low given the huge capital investments required and is imported mostly by Japan.
 73. For a location of the gas fields of Urengoy, Yamburg and Nadym, see the map in *Energy Policies of the Russian Federation*, p. 166.
 74. *Ibid.*, p. 101. They included Surgutneftegaz, Yuganskneftegaz and Nizhnevartovsk.
 75. See, for example, Dmitriy Dokuchaev, 'Gazprom Reform: Hard Nut to Crack', *Moscow News*, 16 July 2003. Chernomyrdin likewise noted that 'nothing good would have resulted from such a division' of Gazprom into production and transportation companies as proposed by GKI (from author's interview with Mr Viktor Chernomyrdin).
 76. See Gary S. Becker, 'There's Nothing Natural about "Natural" Monopolies', *Business Week*, 6 October 1997, p. 26; and S. Ran Kim and A. Horn, 'Regulating Policies concerning Natural Monopolies in Developing and Transition Economies', in *DESA Discussion Paper no. 8* (March 1999).
 77. The key actors in the Soviet oil industry comprised the various oil-related ministries – the Ministry of Oil Industry, Ministry for Construction of Oil and Gas Enterprises, Ministry of Geology and the State Planning Ministry – along with several individuals known as 'oil generals'. In contrast, there was only one actor of consequence in the Soviet gas sector, that is, the Ministry of Gas and later, the Chairman of the Gazprom *kontsern*.
 78. For examples of interministerial conflicts about the Soviet oil industry, see Gustafson, *Crisis amid Plenty*, pp. 291–301.
 79. Calculated from *A Study of the Soviet Economy: Volume 3* (Washington DC: International Monetary Fund, 1991), Table V6.4, p. 226.
 80. See *Russia Energy Survey*, Table 3.1, p. 49.
 81. These figures are calculated based on the reserve-to-production ratios at the end of 2003. Proved oil reserves stood at 69 billion barrels whereas proved gas reserves amounted to 277 billion barrels of oil equivalent. See *Russian Oil & Gas Yearbook 2004*, pp. 9–10.
 82. From Andrei Konoplyanik and Nikolai Lisovsky, 'Russia Aims for Favourable Climate for Joint Ventures', *Oil & Gas Journal*, 10 August 1992. The classic statement on the role of revenue in the making of state policy is by Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988).

- For an analysis of the role of revenue as applied to privatization strategies in post-communist transitions, see Gerald M. Easter, 'Politics of Revenue Extraction in Post-Communist States: Poland and Russia Compared', *Politics & Society* 30, no. 4 (2002): 599–627; and Pauline Jones Luong and Erika Weinthal, 'Contra Coercion: Russian Tax Reform, Exogenous Shocks, and Negotiated Institutional Change', *American Political Science Review* 98, no. 1 (February 2004): 139–152. On the link between revenue and institutional reform, see Atsushi Ogushi, 'Money, Property and the Demise of the CPSU', *Journal of Communist Studies and Transition Politics*, 21, no. 2 (June 2005): 268–295.
83. Author's interview with Mr Viktor Chernomyrdin, former chairman of Gazprom and ex-prime minister of the Russian Federation, 11 February 2004, Kiev.
 84. Decree 1333 'On the transformation of the state gas *kontsern*, Gazprom, into the Russian joint-stock company, Gazprom' was issued on 5 November 1992. It provided for Gazprom to be corporatized as a single and fully intact enterprise. This differed from the situation in the oil industry which was divided into several separate enterprises as part of corporatization.
 85. For a comprehensive account of early reforms in the gas industry, see Kryukov and Moe, *Gazprom: Internal Structure, Management Principles and Financial Flows*, pp. 24–41.
 86. See, for instance, Vladimir Putin, 'Russia at the Turn of the Millennium', (Moscow: 31 December 1999); and Roy Medvedev, *Post-Soviet Russia: A Journey Through the Yeltsin Era*, trans. George Shriver (New York: Columbia University Press, 2000), p. 54.
 87. On the use of case studies in research, see Barbara Geddes, 'How the Cases you Choose Affect the Answers You Get: Selection Bias in Comparative Politics', in *Political Analysis: An Annual Publication of the Methodology Section of the American Political Science Association*, James A. Stimson (ed.) (Ann Arbor: University of Michigan Press, 1990); Arend Lijphart, 'The Comparable Cases Strategy in Comparative Research', *Comparative Political Studies*, no. 8 (1975): 682–693, Arend Lijphart, 'Comparative Politics and Comparative Method', *American Political Science Review* 65 (1971): 158–177; Arthur Stinchcombe, *Theoretical Methods in Social History* (New York: Academic Press, 1978); Adam Przeworski and Henry Teune, *The Logic of Comparative Social Inquiry* (New York: John Wiley, 1970); and Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia and China* (Cambridge: Cambridge University Press, 1979).

2 The Initiation and Spread of Privatization

1. Harvey B. Feigenbaum and Jeffrey R. Henig, 'The Political Underpinnings of Privatisation: A Typology', *World Politics* 46, no. 2 (1994), p. 185.
2. For an enumeration of the variety of privatization activities, see Graeme A. Hodge, *Privatisation: An International Review of Performance* (Boulder: Westview, 2000), Peter M. Jackson and Catherine Price, 'Privatisation and Regulation: A Review of the Issues', in *Privatisation and Regulation: A Review of the Issues*, ed. Peter M. Jackson and Catherine Price (London: Longman, 1994); and 'Types and Techniques of Privatisation', *Privatisation Database* (available at <http://www.privatization.org>).

3. Similar definitions of privatization are employed by William L. Megginson and Jeffrey M. Netter, 'From State to Market: A Survey of Empirical Studies on Privatisation', *Journal of Economic Literature* 39, no. 2 (June 2001): 321–389; Joseph C. Brada, 'Privatisation is Transition – Or Is It?', *Journal of Economic Perspectives* 10, no. 2 (1996): 67–86; and Sunita K. Kikeri, John Nellis and Mary S. Shirley, *Privatisation: The Lessons of Experience* (Washington DC: World Bank, 1992), p. 14.
4. One of the key debates about the Soviet energy industry concerned the extent to which its production decline was the result of natural depletion or mismanagement. For an overview of the problems in the Soviet energy industry from the perspective of a former Russian Minister of Foreign Economic Relations, see Andrei Konoplyanik, 'Russia Struggling to Revive Production, Rebuild Oil Industry', *Oil & Gas Journal*, 2 August 1993. See also previously cited works by Considine and Kerr, *The Russian Oil Economy*; Ebel, *Energy Choices in Russia*; and Gustafson, *Crisis amid Plenty*.
5. Annual oil production figures are provided in *Energy Policies of the Russian Federation* (Paris: International Energy Agency, 1995), Figure 3, p. 107; and *World Production of Crude Oil, Natural Gas Plant Liquids, Other Liquids and Refinery Processing: 1980–2001* (Energy Information Administration, US Department of Energy, available at <http://www.eia.doe.gov>).
6. See Valeriy Neverov and Aleksandr Igolkin, 'Nef't' rodnin', *Ekonomika i zhizn'*, December 1991.
7. As cited in *Energy Policies of the Russian Federation*, p. 102.
8. Russia's energy intensity use was measured at 1.10 tonnes of oil equivalent (or toe) per US\$1000, while the OECD average was 0.23 toe/US\$1,000. Canada, which provides a better comparison in view of its harsh climate and vast territory, records an energy intensity of 0.39 toe/US\$1000 or one-third the level in Russia. See *ibid.*, pp. 43–44.
9. Calculated from information provided by Anders Aslund, *Building Capitalism: The Transformation of the Former Soviet Bloc* (Cambridge: Cambridge University Press, 2002), Table 1.1, p. 35. To date, there is no consensus on actual Soviet growth rates and recomputations are still ongoing. According to the OECD, for instance, Soviet growth rates during the 1960s, 1970s and 1980s were 5%, 2% and 1.2%, respectively, as cited by Hans Aage, 'Privatisation and Democratisation in Eastern Europe and the Former Soviet Union', in *International Privatisation: Strategies and Practices*, ed. Thomas Clarke (Berlin: Walter de Gruyter, 1994), Table 9.1, p. 167. Notwithstanding the point here is that from the 1970s the Soviet economy continuously declined, in contrast to the growth in the economies of the Western and developing countries.
10. For instance, oil's share of capital investment in Soviet industry amounted to an annual average of 50% between 1981 and 1990, as noted by Considine and Kerr, *The Russian Oil Economy*, Table 6.3, p. 151. The link between energy policy and economic stagnation in the Soviet economy is discussed by Leslie Dienes, 'The Energy System and Economic Imbalances in the USSR', *Soviet Economy* 1, no. 4 (1985): 340–372; Boris Rumer, 'Structural Imbalance in the Soviet Economy', *Problems of Communism* 33 (July–August 1984): 24–32; and Gertrude E. Schroeder, 'The Slowdown in Soviet Industry, 1976–1982', *Soviet Economy* 1, no. 1 (1985): 42–74.

11. For details on these laws, see Simon Johnson and Heidi Kroll, 'Managerial Strategies for Spontaneous Privatisation', *Soviet Economy* 7 (1991): 281–316.
12. Quote by Vagit Alekperov, President of LUKoil, as cited by David Lane, 'The Political Economy of Russian Oil', in *Business and the State in Contemporary Russia*, ed. Peter Rutland (Boulder: Westview Press, 2001), p. 103.
13. For a comprehensive discussion about the role of industrial ministries in the Soviet system, see Stephen Whitefield, *Industrial Power and the Soviet State* (Oxford: Clarendon Press, 1993); and Hough, *The Logic of Economic Reform in Russia*, pp. 32–36.
14. The concept of a *kontsern* approximates that of a commercialized state-owned enterprise. Such enterprises are profit oriented and have more flexibility in operational issues than state-owned ones. However, the company law that dictates the management of all private companies is not legally binding on commercialized enterprises. Commercialization is thus less far-reaching than corporatization, which occurs when an enterprise is converted into a company and bound by the provisions of company law, but is still a property of the state. Commercialization/corporatization may be ends in themselves or an intermediate step towards privatization.
15. Whitefield, *Industrial Power and the Soviet State*, p. 227.
16. Author's interview with Mr Lev Churilov, former Minister of Oil of the USSR, 12 February 2004, Moscow.
17. Moser and Oppenheimer, *The Oil Industry*, p. 304.
18. The official, Soviet-era title, for the heads of enterprises was *general-direktor*. In the book, we will replace this with the more familiar term 'general manager'.
19. Author's interview with Mr Aleksandr Putilov, former President of Rosneft', 3 October 2003, Moscow.
20. From 'O kompanii: Istoriya', in *LUKoil neftyanaya kompaniya* (available on the company's homepage at <http://www.lukoil.ru>). Alekperov's role in the reorganization of the oil industry is also discussed in 'Glava 'LUKOyla' dal interv'yu: Gosudarstvo otvechaet kompanii vzaimnost'yu', *Kommersant'-Daily*, 6 February 1996.
21. Up to 20% of Russia's oil was being smuggled out of the country in 1992 and as many as 50 railway cars, each with a capacity of 150 barrels of oil, disappeared each day in 1993, according to Svetlana P. Glinkina, 'Privatizatsiya and Kriminalizatsiya: How Organized Crime is Hijacking Privatization', *Democratizatsiya* 2, no. 3 (Summer 1994), p. 389. Oil smuggling still continues till this day, albeit in smaller quantities than previously, as noted by Sergey Karnaukhov, 'Nef' i kriminal', *Neftegazovaya Vertikal'*, (no. 2) 2000. The link between the KGB and organized crime has been the subject of many works, including J. Michael Waller, *Soviet Empire: The KGB in Russia Today* (Boulder: Westview Press, 1994); Stephen Handelman, *Comrade Criminal: Russia's New Mafiya* (Yale: Yale University Press, 1995); and Gregoriy Podlesskikh and Andrey Tereshonok, *Vory v zakone: broсок k vlasti* (Moscow: Khudozhestvennaya Literatura, 1994).
22. The extent of the price differential is taken from Aslund, *Building Capitalism*, p. 172.
23. The estimate is by Vladimir Tikhomorov, 'Capital Flight from Post-Soviet Russia', *Europe-Asia Studies* 49, no. 4 (1997), Table 3, p. 605. One general manager noted that in 1991–1992 'one litre of mineral water was 100 times

- more expensive than a litre of oil'. See Anatoliy Sivak, 'Where Will the Heavy Pressure of the Ministry of Fuel and Energy Lead?', *Official Kremlin International News Broadcast*, 22 April 1992.
24. On the relationship between policy change and crises, see Joan M. Nelson, 'Conclusion', in *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*, ed. Joan M. Nelson (Princeton: Princeton University Press, 1990), p. 325; Ruth Berins Collier and David Collier, *Shaping the Political Arena: Critical Junctures, the Labour Movement and Regime Dynamics in Latin America* (Princeton: Princeton University Press, 1991); Merilee S. Grindle and John W. Thomas, *Public Choices and Policy Change* (Baltimore: Johns Hopkins University Press, 1991); and Stephen D. Krasner, 'Approaches to the State: Alternative Conceptions and Historical Dynamics', *Comparative Politics* 16, no. 2 (January 1984): 223–246.
 25. Tchurilov, *Lifeblood of Empire*, p. 186. The tendency to blame production shortfalls on poor 'work discipline' continued under Andropov and Gorbachev, so that by the mid-1980s, the average tenure of a chief engineer in an oil production entity fell to just over one year. From Gustafson, *Crisis amid Plenty*, p. 103.
 26. Discussions that culminated in the 1983 energy programme were initiated under Brezhnev and were probably partly a response to a report by the Central Intelligence Agency of the United States, predicting that oil-production levels in the Soviet Union would decline drastically to the extent that the Soviet Union would have to import oil for its own needs by the mid-1990s. See the declassified report by the Central Intelligence Agency, 'The Impending Soviet Oil Crisis', (1977, available at <http://164.109.56.133/soviet-intelligence.asp>). Gustafson has argued that while the crisis in the Soviet oil industry was partly the result of problems and biases inherent in the command economy, it was aggravated by the character of Brezhnev as a leader, who chose not to tackle such issues decisively. See Gustafson, *Crisis amid Plenty*.
 27. Cited by Shafranik and Kryukov, *Zapadno-Sibirskiy Fenomen*, p. 18.
 28. Stephan Haggard and Robert R. Kaufman, 'Introduction: Institutions and Economic Adjustment', in *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts and the State*, ed. Stephan Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992), p. 21.
 29. On the influence of experts and their ideas in spreading similar reform policies around the world, see Peter M. Haas, 'Introduction: Epistemic Communities and International Policy Coordination', *International Organisation* 46, no. 1 (1992): 1–35; Miles Kahler, 'External Influence, Conditionality and the Politics of Adjustment', in *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts and the State*, ed. Stephan Haggard and Robert R. Kaufman (Princeton: Princeton University Press, 1992); Barbara Stallings, 'International Influence on Economic Policy: Debt, Stabilisation and Structural Reform', in *ibid.*; Margaret E. Keck and Kathryn Sikkink, *Activists beyond Borders: Advocacy Networks in International Politics* (Ithaca: Cornell University Press, 1998); Peter A. Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989); and G. John Ikenberry, 'The International Spread of Privatisation Policies: Inducements, Learning and "Policy Bandwagoning"', in *The Political Economy of Public Sector Reform and Privatisation*, ed. Ezra N. Suleiman and John Waterbury (Boulder: Westview,

- 1990). For a critique of the work of international agencies in Russia, see Joseph E. Stiglitz, 'Whither Reform? Ten Years of Transition' (paper presented at the Annual World Bank Conference on Development Economics, Washington DC, 28–30 April 1999); and Vladimir Brovkin, 'Wishful Thinking about Russia?', *Transition* (June 1999). Criticism of the IMF and World Bank has also come from liberal economists who claim that these agencies did not do enough to support the 'young reformers' at the beginning of the reforms. See Jeffrey D. Sachs, 'The Transition at Mid Decade', *American Economic Review* 86, no. 2 (1996): 128–133.
30. Prior to Thatcher's privatization programme, west Germany under Konrad Adenauer disposed of governmental shares in two major industrial companies in the 1960s, and the Labour government in the UK sold shares in British Petroleum to raise cash in 1976. However, the privatization programme launched under Thatcher is considered to be the most important historically.
 31. John Nellis, 'Privatisation in Developing Countries: A Summary Assessment', in *Centre for Global Development Working Paper 87* (Washington DC: 2006), p. 3.
 32. See Megginson and Netter, 'From State to Market: A Survey of Empirical Studies on Privatisation', pp. 327–328.
 33. Nellis, 'Privatisation in Developing Countries', p. 8.
 34. According to Fariborz Ghadar, the oil privatizations in the 1980s and early 1990s were partly the result of industry-wide factors relating to the increasing indebtedness of national oil companies in the face of falling world demand, and consequently, world price for oil. However, the Middle Eastern governments managed to retain control over their oil industries because of the comparatively lower production costs and levels of accountability in the region. See Fariborz Ghadar, 'Oil: The Power of an Industry', in *The Promise of Privatisation: A Challenge for US Policy*, ed. Raymond Vernon (Washington DC: Council of Foreign Relations, 1988).
 35. Calculated from figures provided in *World Production of Crude Oil*.
 36. Alexander Radygin, *Privatisation in Russia: Hard Choice, First Results, New Targets* (London: The Centre for Research into Communist Economies, 1995), p. 20. A review of competing reform plans and tendencies is given in *ibid.*, pp. 20–26; Goldman, *Lost Opportunity*, pp. 64–77; Shlapentokh, 'Privatisation Debates in Russia: 1989–1992'; and Vladimir Mau, *The Political History of Economic Reform in Russia, 1985–1994* (London: The Centre for Research into Communist Economies, 1996).
 37. See George W. Breslauer, 'Soviet Economic Reforms since Stalin: Ideology, Politics and Learning', *Soviet Economy* 6, no. 3 (1990): 252–280.
 38. The estimated proportion of enterprises exempted from the mass privatization programme is cited in Anders Aslund, *How Russia Became a Market Economy* (Washington DC: Brookings Institution Press, 1995), p. 233; Peter Rutland, 'Privatisation in Russia: One Step Forward: Two Steps Back?', *Europe-Asia Studies* 46, no. 7 (1994), p. 1119; and *OECD Economic Surveys: The Russian Federation 1995* (Paris: Organisation for Economic Co-operation and Development, 1995), p. 81.
 39. On the role of domestic and foreign actors, see Haggard and Kaufman, 'Introduction: Institutions and Economic Adjustment'; and the list of works cited by Robert H. Bates and Anne O. Krueger, 'Generalisations from the Country Studies', in *Political and Economic Interactions in Economic Policy*

- Reform: Evidence from Eight Countries*, ed. Robert H. Bates and Anne O. Krueger (Oxford: Blackwell, 1993), footnote 6, p. 468.
40. Vladimir Mau, 'Russian Economic Reforms as Perceived by Western Critics', in *BOFIT Discussion Papers* (Helsinki: Bank of Finland's Institute for Economies in Transition, December 1999), p. 15. For a similar perspective, see John Odling-Smee, 'The IMF and Russia in the 1990s', in *IMF Working Paper* (Washington DC: August 2004).
 41. As cited by Igor Ogniov, 'Tyumen's Surprise for Russia', *Izvestiya*, 9 January 1992 (compiled in *Current Digest of the Post-Soviet Press* XLIV, 1, 1992, pp. 25–26, 35).
 42. Aspects of the Gaydar/Chubays plan for the oil industry are cited in Peregodov, 'Large Corporations as National and Global Players', p. 122; Lane, 'The Political Economy of Russian Oil', p. 106; and in author's interview with Mr Dmitriy Romanov.
 43. This disagreement between Gaydar/Chubays and Lopukhin was not the only instance of differences among the 'young reformers'. Gaydar and Chubays, for example, opposed the use of vouchers for mass privatization, a policy championed by Dmitriy Vasil'ev, the deputy head of GKI. They were instead, in favour of cash-based privatization. Similarly, the 'young reformers' were divided over the imposition of oil export tariffs in January 1992. Those in favour of the tariff included financial agencies such as the Ministry of Finance and the Ministry of Foreign Economic Relations, whereas Mintopenergo objected to the tariff.
 44. The other two appointees were Viktor Shumeyko (first deputy prime minister) and Georgy Khiza (deputy prime minister). Lopukhin was not dismissed because he opposed the preferences of the 'oil generals' to create VIOCs; as mentioned above, Lopukhin was supportive of such plans. Rather, in a political tug-of-war with the Soviet-era parliament, 'some kind of sacrifice was demanded from Yel'tsin for the first painful period of price liberalisation . . . and Lopukhin turned out to be the weakest link in Gaydar's government' (from author's interview with Mr Viktor Ivanenko, ex-acting chairman of the KGB and former vice-president of YUKOS, 6 February 2004, Moscow). In fact, Lopukhin's dismissal had already been demanded by the parliament in April 1992 (see Yeltin, *The Struggle for Russia*, pp. 164–167). Lopukhin's ministry not only failed to halt the decline in oil production, but his management style – he was apparently unnecessarily verbose and held unproductive meetings long into the night – also did not sit well with his peers. Lopukhin himself admitted that 'there were a lot of problems to be solved and maybe I was poorly organised' as a minister (from author's interview with Mr Vladimir Lopukhin).
 45. As reported by Vasily Kononenko, 'Oil Prices in Russia to be Freed: Gas and Electricity Prices will remain Controlled', *Izvestiya*, 10 September 1992 (compiled in *Current Digest of the Post-Soviet Press*, XLIV, 36, 1992, p. 28).
 46. The seminal decree 1403 was entitled 'On the Features of the Privatisation and Transformation into Joint Stock Companies of State Enterprises of Industry, Research and Production Associations of Petroleum and Petroleum Refining Industries'.
 47. Quoted in 'Yel'tsin Orders Privatisation Move for Russian Oil', *Oil & Gas Journal*, 9 November 1992.

48. Author's interview with Mr Vladimir Lopukhin.
49. Author's interview with Mr Dmitriy Romanov.
50. 'Yel'tsin Orders Privatisation Move for Russian Oil'.
51. From Johnson and Kroll, 'Managerial Strategies for Spontaneous Privatisation'.
52. Ibid.
53. Chronology from Moser and Oppenheimer, 'The Oil Industry: Structural Transformation and Corporate Governance', pp. 305–306.
54. From 'Nasha kompaniya: Istoriya kompanii', the homepage of Sibneft' oil company and available at <http://www.sibneft.ru>.
55. This 'Concept' also called for the creation of a national oil company to represent Russia's interests in production-sharing agreements and to coordinate the oil sector as a whole.
56. From author's interview with Mr Viktor Ott.
57. See the classic statement by William A. Niskanen, *Bureaucracy and Representative Government* (Chicago: Aldine, 1971).
58. David Colander, 'Introduction', in *Neoclassical Political Economy: The Analysis of Rent Seeking and DUP Activities*, ed. David Colander (Cambridge, Massachusetts: Ballinger, 1984), p. 5.
59. Boyko, Shleifer and Vishny, *Privatising Russia*, p. 11.
60. The use of production-sharing agreements, however, was opposed by other bureaucratic interests such as the finance, customs and tax authorities who were reluctant to lose revenue that could be extracted from foreign investors. See Paul Chaisty, *Legislative Politics and Economic Power in Russia* (Basingstoke: Palgrave Macmillan, 2006), pp. 174–192.
61. Author's interview with Mr Yuriy Shafranik, ex-governor of Tyumen' oblast' and former Minister of Fuel & Energy of the Russian Federation, 13 February 2004, Moscow.
62. Shafranik recalled that he objected so strenuously to the loans-for-shares scheme that 'you wouldn't find anywhere any signature of mine on such documents' (ibid.)
63. Sivak, 'Where Will the Heavy Pressure of the Ministry of Fuel and Energy Lead?'. See also 'Russian Energy Ministry May be Dropped Soon', *Platt's Oilgram News*, 5 May 1992.
64. Tat'yana Koshkareva and Rustam Narzikulov, 'Liberal'y delyat neftyanuyu sobstvennost'', *Nezavisimaya gazeta*, 10 December 1998. Shafranik's successor, Sergey Generalov, also faced a similar accusation. See John Kenyon, 'Four State Oil Majors Sign Their Way toward Union', *Moscow Times*, 9 December 1998.
65. See works by Solnick, *Stealing the State*; Whitefield, *Industrial Power and the Soviet State*; and Johnson and Kroll, 'Managerial Strategies for Spontaneous Privatisation'.
66. Leonid Radzikhovskiy, 'Nomenklatura obmenyala "Kapital" na kapital', *Izvestiya*, 7 March 1995.
67. See the next chapter for details.
68. See Timothy Frye, *Brokers and Bureaucrats: Building Market Institutions in Russia* (Ann Arbor: University of Michigan Press, 2000).
69. Recounted in author's interview with Mr Vladimir Lopukhin.
70. See 'Model Russian Republic Oil Law Taking Shape', *Oil & Gas Journal*, 11 November 1991.

71. See Robert H. Bates, 'Comment', in *The Political Economy of Policy Reform*, ed. John Williamson (Washington DC: Institute for International Economics, 1994), pp. 31–33; and Bates and Krueger, 'Generalisations from the Country Studies', pp. 463–467.
72. The use of the term 'shock therapy' to describe reforms undertaken by Gaydar is not without controversy, and as such, is referred to in inverted commas. For some scholars, the term is a misnomer since 'shock therapy' was never fully implemented as a result of political pressures. See, for example, Aslund, 'Why Has Russia's Economic Transformation Been so Arduous?'; and Jeffrey D. Sachs, 'Why Russia Has Failed to Stabilise', in *Russia's Economic Transformation in the 1990s*, ed. Anders Aslund (Washington DC: Pinter, 1997).
73. As quoted by Hoffman, *The Oligarchs*, p. 178. Shevtsova makes a similar comment that for Yel'tsin, power was 'more important than life itself' (p. 270) and that the 'goal of power justified the means' (p. 271). From Lilia Shevtsova, *Yeltsin's Russia: Myths and Reality* (Washington DC: Carnegie Endowment for International Peace, 1999). Similar observations are made by Hough, *The Logic of Economic Reform in Russia*, p. 129; and Lukin, *The Political Culture of the Russian 'Democrats'*, p. 293.
74. Boris Yel'tsin, *The Struggle for Russia*, trans. Catherine A. Fitzpatrick (New York: Random House, 1994), p. 126.
75. For an insightful analysis of Yel'tsin's personality, preferences and the origins of his management style, see George W. Breslauer, *Gorbachev and Yeltsin as Leaders* (Cambridge: Cambridge University Press, 2002).
76. Yel'tsin, *The Struggle for Russia*, p. 126. In another example of Yel'tsin's predilection for haste, he insisted that 'it was paramount to reject the path of the communist economy in one fell swoop'. From Boris Yel'tsin, *Midnight Diaries*, trans. Catherine A. Fitzpatrick (New York: Public Affairs, 2000), p. 105.
77. See the next chapter for a discussion of GKI's legal prerogatives vis-à-vis other bureaucratic agencies.
78. Under Yel'tsin, the only head of GKI to question privatization was Vladimir Polevanov (November 1994–January 1995), who suggested that there was a need to renationalize some of the assets that had been privatized.
79. Dunleavy proposed this perspective of a rational, bureau-shaping bureaucrat as an alternative to Niskanen's budget-maximizing model. See Patrick Dunleavy, *Democracy, Bureaucracy and Public Choice: Economic Explanations in Political Science* (Hemel Hempstead: Harvester-Wheatsheaf, 1991); and Patrick Dunleavy, 'Explaining the Privatisation Boom: Public Choice versus Radical Approaches', *Public Administration* 64, no. 1 (1986): 13–34.
80. An example of a GKI official who was perhaps less ideologically committed than many of his peers is Al'fred Kokh, a former chairman, who frankly admitted that he valued monetary rewards over ideological satisfaction. See excerpts of interviews with Kokh in David Satter, *Darkness at Dawn: The Rise of the Russian Criminal State* (New Haven: Yale University Press, 2003), pp. 34–35. Kokh's preferences were also confirmed in the author's interview with Mr Jonathan Hay, former head of the Harvard Institute for International Development (Moscow office), 17 November 2004, London.
81. Andrey Kolesnikov, *Neizvestnyy Chubays: stranitsy iz biografii* (Moscow: Zakharov, 2003), p. 141. A similar motivation was also evident among Chubays's colleagues, one of whom noted that 'we needed to totally change

- the system. Who could do this but us? . . . We had to try and make the first and, maybe, last attempt . . . This was the small window of opportunity when you could change your country'. From author's interview with Dr Andrey Konoplyanik, former deputy minister of Fuel & Energy of the Russian Federation, 28 June 2004, Brussels.
82. Quote by Chubays as cited in Brady, *Kapitalizm*, p. 64.
 83. Freeland, *Sale of the Century*, p. 52.
 84. The discussion here will be of a general nature. For specific examples of general managers who influenced the process and the resources at their disposal, see the subsequent case studies on YUKOS and Slavneft'.
 85. These issues will only be mentioned in passing as the focus of the book is on privatization, rather than liberalization, of the oil industry. For more information on liberalization reforms, see *Energy Policies of the Russian Federation*, pp. 23–28; Pleines, 'Corruption and Crime in the Russian Oil Industry'; and Iskander Seifulmulukov and Eric Whitlock, 'Deregulation in the Russian Oil Industry', *Radio Free Europe/Radio Liberty Research Reports*, 27 August 1993, pp. 58–63.
 86. See Lane, 'The Political Economy of Russian Oil', p. 104.
 87. As presented in 'Znaniya: Kto my'.
 88. Klebnikov, *Godfather of the Kremlin*, pp. 194–208; and 'Governor, Mayor Fight over Tax Revenue in Omsk', *Russian Regional Report*, 3, no. 44, 5 November 1998.
 89. For more information on the ambition of political elites, see Bruce Kellison, 'Tyumen, Decentralisation and Centre–Periphery Tension', in *The Political Economy of Russian Oil*, ed. David Lane (Lanham: Rowman and Littlefield, 1999).
 90. The proposal for the Corporation was quickly abandoned in view of fierce opposition from general directors of oil-production associations located in Tyumen'; they wanted to run their associations independently of the Corporation.
 91. Shafranik and Kryukov, *Zapadno-Sibirskiy Fenomen*, p. 54.
 92. In his capacity as president of the Russian Federation, Yel'tsin issued a decree in September 1991 which recognized the right of Tyumen oblast' to use its own natural resources for economic development.
 93. It was predicted that oil prices would rise by five to sevenfold, far outstripping the threefold increases in prices of other goods. See 'Bigger Plunge Could Lie Ahead for Russian Oil Production'.
 94. 'Russia Too Sluggish on Oil Privatisation', *Oil & Gas Journal*, 23 November 1992.
 95. The first phase from 1992 to 30 July 1994 was known as mass or voucher privatization, where the main objective was to create as many shareholders and as quickly as possible. The legislation for the second phase of privatization was approved by presidential decree 1535 on 22 July 1994 and is known as the 'Basic guidelines of the state programme of privatization of state and municipal enterprises in the Russian Federation after July 1, 1994'. Its aim was to improve the efficiency of individual enterprises by mobilizing investments. See for instance, Igor' Karpenko, 'Rossiya nachinaet denezhnuyu privatizatsiyu', *Izvestiya*, 7 March 1995.
 96. Appendix 2 summarizes the results of the loans-for-shares auctions.

97. Reddaway and Glinski, *The Tragedy of Russia's Reforms*, p. 480.
98. Kokh, *The Selling of the Soviet Empire*, p. 177.
99. From *Russian Economic Trends*, vol. 4, no. 3 (1995), p. 94.
100. As cited by Kokh, *The Selling of the Soviet Empire*, p. 100.
101. Author's interview with Mr Sergey Molozhaviy, former deputy minister of GKI, 10 February 2004, Moscow. The link between the ban on oil sales and loans-for-shares is also noted by Aleksandr Bekker, 'Trench Warfare on the Main Front', *Segodnya*, 29 July 1995 (compiled in the *Current Digest of the Post-Soviet Press*, XLVII, 31, p. 17), Petr Kir'yan, 'Ekonomicheskiy analiz "privatizatsiya": piat let – ne srok', *Ekspert*, 13 November 2000; and Kokh, *The Selling of the Soviet Empire*, pp. 100–105.
102. The average monthly inflation rates between 1992 and 1994 were 127% (1992), 73% (1993) and 26% (1994). See *Transition Report 1999* (London: European Bank for Reconstruction and Development, 1999), p. 261. On the use of non-cash sources of financing the federal budget, see Brian Aitken, 'Falling Tax Compliance and the Rise of the Virtual Budget in Russia', in *IMF Staff Papers* (Washington DC: International Monetary Fund, 2001).
103. Cited by Ira W. Lieberman and Rogi Veimetra, 'The Rush for State Shares in the "Klondike" of Wild East Capitalism: Loans-for-Shares Transactions in Russia', *The George Washington Journal of International Law and Economics* 29, no. 3 (1996), footnote 9, p. 743.
104. Quote by a Western investment banker as cited by Michael Comerford, 'Oil Giants' Stock Offering "Close to Free"', *Moscow Times*, 19 October 1995.
105. Data on the market capitalization of Surgutneftegaz and LUKoil are as at October 1995. These were the only two holding companies in the oil sector that were listed on the stock market, the bulk of which comprised individual oil-producing subsidiaries of holding companies. See 'Ekspert 200: Reyting krupneyshikh predpriyatiy Rossii – 1995 god', *Ekspert*, available at <http://www.expert.ru/expert/ratings/exp200/exp20095/w1.htm>.
106. See Robert Corzine and Nicholas Denton, 'ARCO pays', *Financial Times (London)*, 30 March 1996; Kryukov and Moe, 'The Changing Role of Banks in the Russian Oil Sector', p. 24; and Jane Upperton, 'ARCO's LUKoil Stake Is 1st FSU Project', *Platt's Oilgram News*, 31 August 1995.
107. See Gideon Fireman, 'British Invasion: Two Big Russian Plays', *Platt's Oilgram News*; and Joel Kibazo and Martin Brice, 'BP in demand', *Financial Times (London)*, 18 November 1997.
108. See Roland Nash and Dirk Willer, 'Share Prices in Russia: The Reasons for Undervaluation', *Russian Economic Trends*, 4, no. 2 (1995): 111–126.
109. Figures cited by Rudiger Ahrend and William Tompson, 'Fifteen Years of Economic Reform in Russia: What Has Been Achieved? What Remains to be Done?', in *OECD Economics Department Working Papers* (Paris: OECD Publishing: 2005), p. 32.
110. Quote by a Western research analyst as cited by Michael Comerford, 'Rapid Oil Privatisation May Saturate Markets', *Moscow Times*, 28 October 1995.
111. Detailed figures are cited in Carsten Sprenger, 'Ownership and Corporate Governance in Russian Industry: A Survey', in *European Bank for Reconstruction and Development Working Paper* (Paris: January 2002), Table 3, p. 6.
112. Quote by Potanin as cited by Brady, *Kapitalizm*, p. 142.

113. See Mikhail Loginov, 'Zayavlenie bankov Kluba "Nadezhnost": Drugie banki sdelali pravitel'stvu drugoe predlozhenie', *Kommersant'-Daily*, 6 April 1995; Dmitriy Volkov, 'Major Banks of Russia Warn the Government, Suggest that the Consortium Share', *Segodnya*, 6 April 1995 (compiled in *Current Digest of the Post-Soviet Press*, XLVII, 14, 1995, p. 10).
114. For an account of the work of the Treuhandanstalt with regard to managing state-owned enterprises in east Germany, see Mark Cassell, *How Governments Privatise: The Politics of Divestment in the United States and Germany* (Washington DC: Georgetown University Press, 2002).
115. For a detailed study of the development of the banking sector in Russia, see Johnson, *A Fistful of Rubles*.
116. Estimated by Thane Gustafson, *Capitalism Russian-Style* (Cambridge: Cambridge University Press, 1999), p. 84.
117. See Shleifer and Treisman, *Without a Map*, pp. 68–70. This interpretation of the introduction of treasury bonds has been challenged by Juliet Johnson, who argues that treasury bonds were introduced as a non-inflationary method for financing the budget deficit (see Johnson, *A Fistful of Rubles*, p. 123, footnote 80). Whatever the aim of treasury bonds, the point that is undisputed is that the loans-for-shares emerged as a new money-making activity for selected banks.
118. Kryukov and Moe, *The Changing Role of Banks in the Russian Oil Sector*, p. 22.
119. Quote from a spokesman of Menatep bank, as cited by Andrey Bagrov, 'Privatizatsiya: Goskomimushchestvo vspomnilo vkus pobed', *Kommersant'-Daily*, 27 September 1995.
120. According to the GKI plan of August 1995, 15% of state-owned LUKoil stock was to be included in the loans-for-shares scheme. See Svetlana Lolayeva, 'State Property Committee Expects to Fulfill the Plan for Revenues from Privatisation', *Segodnya*, 17 August 1995 (compiled in *Current Digest of the Post-Soviet Press* XLVII, 33, 1995, p. 18).
121. William Tompson, 'Privatisation in Russia: Scope, Methods and Impact', (Birbeck College, University of London, 2004), p. 7.
122. Cited in Robert J. Brym, 'Voters Quietly Reveal Greater Communist Leanings', *Transition*, 8 September 1995.
123. From Shevtsova, *Yeltsin's Russia: Myths and Reality*, p. 139.
124. Quote by Yuriy Ivanov, as reported in 'Kak kommunisty sobirayutsya ispravlyat' grekhi demokratov', *Izvestiya*, 15 February 1996.
125. Yegor Gaidar, *Days of Victory and Defeat*, trans. Jane Ann Miller (Seattle: University of Washington Press, 1999), p. 287.
126. Quote by Gaydar from Freeland, *Sale of the Century*, p. 163.
127. During the first half of the 1990s, Russian businesses did not directly own media holdings. The tycoons preferred to pay for advertising or act as unofficial sponsors of media companies. It was only after Yel'tsin's re-election that the banks and oil companies started acquiring media-related assets. See Laura Belin, 'The Fall and Rise of State Power over the Russian Media, 1995–2001' (D.Phil. thesis, Oxford University, May 2002). The only exception was Berezovskiy: although ORT was still 51% state-owned, by autumn of 1995, he and his partners controlled 36% of the votes. Moreover, he wielded more effective control than the state representatives at ORT. See Klebnikov, *Godfather of the Kremlin*, p. 160.

128. Detractors include Matt Bivens and Chrystia Freeland, who reject the coalition-building theory as an attempt at *ex post-facto* justification. Instead, Freeland argues that loans-for-shares was simply 'a vehicle to deliver valuable state companies to the future oligarchs' (Freeland, *Sale of the Century*, p. 172) who preyed on the state's weakness; Bivens views loans-for-shares as the 'theft of natural resource companies, organised by Chubais for friends of Chubais'. (from Matt Bivens, 'Chubais and the Privatisation of History', *Moscow Times*, 26 April 2004).
129. See, for example, William B. Flemming, 'Business-State Relations in Post-Soviet Russia: The Politics of Second Phase Privatisation, 1995-1997' (M.Phil. thesis, Oxford University, 1998). With regard to this question, Primakov has argued that Yel'tsin was generally not capable of such decisions, but that his coterie of advisors dubbed 'The Family' were more than capable of strategic thinking, and that they used Yel'tsin to enhance their own wealth and influence over policy. See Yevgeny Primakov, *Russian Crossroads: Toward the New Millennium*, trans. Felix Rosenthal (New Haven: Yale University Press, 2004), especially pp. 279-313.
130. From Moser and Oppenheimer, 'The Oil Industry', footnote 11, p. 312.
131. For more details, see *ibid.*, pp. 311-312. Upon learning of the intention by the management of Rosneft' to bid in the trust auctions, the managers of Surgutneftegaz and ONEKSIMbank (the latter was the organizer for the auctions) threatened to 'place a comma in the wrong place in the payment document'. Indeed they said, 'it is our bank, isn't it? We are an organising bank, so that is what we shall do'. (recounted in author's interview with Mr Aleksandr Putilov).
132. From an account by Lieberman and Veimetra, 'The Rush for State Shares in the Klondike of Wild East Capitalism', p. 748.
133. See Sergey Leskov, 'Dogovornye matchi byvayut ne tol'ko o sporte: ocherednoy auktsion neftyanykh kompanii', *Izvestiya*, 29 December 1995.
134. See Kryukov and Moe, *The Changing Role of Banks in the Russian Oil Sector*, p. 38.
135. *Ibid.*, p. 33.
136. Details of the accusation are recounted by Jane Upperton, 'Russia's Latest Share Brings Fresh Criticism', *Platt's Oilgram News*, 2 July 1997.
137. Tatneft' is not included among the top five VIOCs mentioned here as it is partly owned by the regional authorities.
138. Anatoliy Chubays, 'V poiskakh sobstvennogo puti', in *Privatizatsiya po-rossiyskiy*, ed. Anatoliy Chubays (Moskva: Vagrius, 1999), p. 323.
139. Quote by Sergey Markov, director of the Centre for Political Studies, in Gregory Feifer, 'The Kremlin's Big Sell-Off', *Moscow Times*, 19 December 2000.
140. Quote by Vladimir Malin of the Federal Property Fund from 'Russian Government Sells Onako State Oil Company for \$1.08 Billion', *The Associated Press*, 19 September 2000.
141. For example, Berezovskiy was not invited to attend a meeting between the newly elected president and leading businessmen held in June 2000, while his business acquisitions were subjected to probes by the Prosecutor General's office around this time. For more on the politics behind ONAKO's sale, see Feifer, 'The Kremlin's Big Sell-Off'.

142. Cited by Eduard Gismatullin, 'One Horse Race for TNK Stake', *Moscow Times*, 6 November 1999.
143. One of Berezovskiy's most famous mantras relates to the fact that one does not have to buy an enterprise in order to control it. One can resort to 'privatisation of profits', 'privatisation of property' or 'privatisation of debts', as quoted by Klebnikov, *Godfather of the Kremlin*, p. 170.
144. The Russian government owned 75% of Slavneft', while the remainder was held by the Belarussian government. An in-depth analysis of the privatization of Slavneft' is at Chapter 4.
145. For a discussion on the role of change teams and management of reforms, see Nelson, 'Conclusion', p. 335; and Williamson, 'In Search of a Manual for Technopols', pp. 25–26.
146. For more on the strategic nature of Yel'tsin's ever-changing governments, see Reddaway and Glinski, *The Tragedy of Russia's Reforms*, pp. 243–244 (the 'see-saw' system); and Breslauer, *Gorbachev and Yeltsin as Leaders*, pp. 251–254.
147. Yel'tsin, *Midnight Diaries*, p. 104.
148. Lilia Shevtsova, 'From Yel'tsin to Putin: The Evolution of Presidential Power', in *Gorbachev, Yeltsin and Putin: Political Leadership in Russia's Transition*, ed. Archie Brown and Lilia Shevtsova (Washington DC: Carnegie Endowment for International Peace, 2001), pp. 69–70. A similar perspective is by Medvedev, *Post-Soviet Russia*, p. 238.
149. Putin, 'Russia at the Turn of the Millennium'.
150. Andrew Jack, *Inside Putin's Russia* (London: Granta, 2004), p. 334.
151. Nataliya Gevorkyan, Natalya Timakova and Andrei Kolesnikov, *First Person: An Astonishingly Frank Portrait by Russia's President Vladimir Putin*, trans. Catherine A. Fitzpatrick (New York: Public Affairs, 2000), p. 193.
152. Quote by Sergey Markov, director of Centre for Political Studies in Moscow, as cited by Feifer, 'The Kremlin's Big Sell-Off'.
153. See Putin's advice to leading businessmen at July 2000 meeting as reported by Igor' Trefilov, 'Skromnee, tishe, dal'she: Kakim dolzhen byt' oligarkh novogo vremeni', *Segodnya*, 29 July 2000. The observation that Putin appears to favour certain businessmen over others is also noted by Shevtsova, 'From Yel'tsin to Putin', footnote 48, p. 111.
154. Brady, *Kapitalizm*, p. 139.
155. Quote by Aleksandr Kazakov, Chairman of GKI, in 'Interv'yu Aleksandra Kazakova: Vse dolzhno idti estestvennym putem', *Kommersant'-Daily*, 13 February 1996.
156. From Yitzhak M. Brudny, 'Continuity or Change in Russian Electoral Patterns? The December 1999–March 2001 Election Cycle', in *Contemporary Russian Politics: A Reader*, ed. Archie Brown (Oxford: Oxford University Press, 2001). McFaul has come up with a different set of numbers. According to his analysis, pro-reform groups received 43% of votes in 1993, but only 38.2% in 1995. In contrast, their opponents received 42.8% of the votes in 1993 and 52.8% in 1995. See Michael McFaul, *Russia between Elections: What do the 1995 Results Really Mean?* (Washington DC: Carnegie Endowment for International Peace, 1996), p. 3. The discrepancies with Brudny's figures are due to the way in which parties are classified. In any case, the point is the same: that the Communist Party and its allies had increased their share of the vote at the expense of liberal parties.

157. The figures are from Shevtsova, *Yeltsin's Russia: Myths and Reality*, p. 156.
158. See, for instance, 'The Communist Comeback', *New York Times*, 19 December 1995; 'Communists and Nationalists Do Better than Expected', *New York Times*, 19 December 1995; Jerry Hough, Evelyn Davidheiser and Susan Goodrich Lehmann, *The 1996 Presidential Election* (Washington DC: Brookings Institution Press, 1996); and Peter Reddaway, 'Red Alert', *The New Republic*, 29 January 1996. For a dissenting opinion regarding the balance of forces in the country, see Michael McFaul, *Russia's Unfinished Revolution: Political Change from Gorbachev to Putin* (Ithaca: Cornell University Press, 2001), pp. 286–287.
159. Aleksandr Bekker, 'Gibkaya politika GKI', *Segodnya*, 12 April 1996.
160. See, for example, 'Khodorkovskiy stal kumirom delovoy molodezhi', *Nezavisimaya gazeta*, 21 July 2003; Jason Bush, 'Russia: Why Business is Rushing into Politics', *Business Week*, 8 December 2003; Anna Politkovskaya, *Putin's Russia*, trans. Arch Tait (London: Harvill Press, 2004), p. 276; Natal'ya Arkhangel'skaya, 'Komitet po delam oligarkhov', *Ekspert*, 19 May 2003; and Anatoliy Kostyukov, 'Ten' YUKOSa nakryla i npavykh, i levykh', *Nezavisimaya gazeta*, 9 December 2003.
161. Respectively, the quotes are cited in Arkhangel'skaya, 'Komitet po delam oligarkhov'; and Natal'ya Zakharchk, 'Serzhantov khvatit na vsekh', *Moskovskiy novosti*, 22 July 2003.
162. From Susan B. Glasser and Peter Baker, 'Two Visions for Russia and One Battle of Wills: Oilman has History of Defying Putin', *The Washington Post*, 5 November 2003; and Francesca Mereu, 'Yukos Takes a Bite out of Yabloko's Party List', *Moscow Times*, 3 December 2003.
163. The party list of the Communists included businessmen linked to TNK while that of the Union of Rightist Forces included executives linked to the electricity monopoly, Unified Energy Systems and its president Chubays.
164. Estimate cited above in Mereu, 'Yukos Takes a Bite out of Yabloko's Party List'.
165. This prospect of an 'oligarchic coup' was contained in a notorious report 'V Rossii gotovitsya oligarkhicheskiy perevorot', (Moscow: Sovet po Natsional'noy Strategii, 26 May 2003, available at <http://www.utro.ru/articles/2003/05/26/201631.shtml>.) As ringleader, Khodorkovskiy was mentioned 10 times and YUKOS 25 times, Abramovich and Sibneft' were given 9 and 22 mentions and Fridman and Al'fa received 4 and 10 mentions. See Vladimir Pribylovsky, 'What's the Scandal All About?', *Moscow Times*, 11 June 2003.
166. For a discussion of the primary cause of the YUKOS affair, see the following chapter.
167. Mark Zavadskiy, "Vykovyriyat' i mochtit", *Yezhenedel'nyy zhurnal*, 3 November 2003.
168. See Vladislav Borodulin, 'Privatizatsiya v Rossii: Boris El'tsin vernul VPK v lono byudzhetu', *Kommersant'-Daily*, 26 December 1995.
169. The term is from Stephen Holmes, 'Superpresidentialism and its Problems', *East European Constitutional Review* 3, no. 1 (1994), p. 124.
170. See the discussion in Chapter 4.
171. Quote by Viktor Semago as cited by Andrei Jr Zolotov, 'The Art of the Deal', *Moscow Times*, 19 August 2000. See also Yekaterina Zapodinskaya, 'V Gosdume brali vzyatki po preyskurantu', *Kommersant'-Daily*, 16 March 2000.

172. As cited in Christopher Thomas Speckhard, 'The Ties that Bind: Big Business and Centre-Periphery Relations in the Russian Federation' (D.Phil. thesis, University of Texas at Austin, December 2004). The key actors included the long-serving governor of Samara, Konstantin Titov and YUKOS's vice-president Viktor Kazakov.
173. Author's interview with Mr Sergey Molozhaviy.
174. Paul Chaisty and Petra Schleiter, 'Productive but Not Valued: The Russian State Duma, 1994-2001', *Europe-Asia Studies*, 55, no. 5 (2002), p. 714.
175. See Maxim Ryzhov, 'Energichnaya Gosduma', *Neft' i Kapital*, 2000; and Raj M. Desai and Itzhak Goldberg, 'The Politics of Russian Enterprise Reform: Insiders, Local Governments, and the Obstacles to Restructuring', *The World Bank Research Observer* 16, no. 2 (Fall 2001): 219-240.
176. As cited by Yuriy Zarakhovich, 'Meet the Second Richest Man in Russia', *Time Europe*, 2 December 2002.
177. For more examples of oil-executives-turned senators, see Aleksey Makarkin, 'Senatory ot nefti', *Neft' i Kapital*, 2002. The influence of oil and other business groups on regional elections is the subject of an article in 'Regional Leaders and their Corporate Sponsors', *Radio Free Europe/Radio Liberty: Russian Political Weekly*, 23 January 2003 (available at www.rferl.org/rpw). However, the oil lobby is not a united group and the interests of individual companies often clash in the regions.

3 Case Study of YUKOS

1. For example, the name and role of Sergey Muravlenko is largely absent in accounts by Lane and Seifulmulukov, 'Structure and Ownership'; Freeland, *Sale of the Century*; Hoffman, *The Oligarchs*; Goldman, *The Privatization of Russia*; and Fortescue, *Russia's Oil Barons and Metal Magnates*.
2. See 'Hostile Takeover, Russian Style', *Forbes*, 21 November 1994; and 'Zaderzhany podozrebaemye v ubiystve krupnogo biznesmena', *Kommersant'-Daily*, 26 October 1995.
3. All kinds of spurious reasons were given for such requests. For instance, Russia's vice-president Aleksandr Rutskoi requested a certain quota of oil to be given to a specific company to commemorate the 500th anniversary of the founding of America by Christopher Columbus (from author's interview with Mr Lev Churilov). Such requests continued to be made during Gaydar's tenure as acting prime minister, as recounted by Gaidar, *Days of Victory and Defeat*, pp. 122-123.
4. Gaidar, *State & Evolution*, p. 59. A similar argument is made by Solnick, *Stealing the State*.
5. Author's interview with Dr Rair Simonyan (in Oxford).
6. Author's interview with Mr Andrey Shtorkh, former vice-president of Slavneft', 1 October 2003.
7. 'Press Conference with the President of the LUKoil Company', *Official Kremlin International News Broadcast*, 5 April 1995.
8. Viktor Muravlenko was in charge of the Soviet Union's largest oil enterprise, Glavtyumenneftegaz, from 1965 till his death in 1977. As a mark of respect, a drill ship and town in Tyumen' were named in his honour. His contributions

- to the Soviet oil industry are recounted by Alexander Atanatsky, 'From the Glorious Ranks of the Pioneers', *Oil of Russia*, no. 4, 2005; and by Tchurilov, *Lifeblood of Empire*.
9. For further details of oil production by enterprise, see *Energy Policies of the Russian Federation*, p. 97. Figures on oil reserves may be found in the same publication (p. 106).
 10. Author's interview with Mr Viktor Ivanenko, ex-acting chairman of the KGB and former vice-president of YUKOS, 6 February 2004, Moscow; and author's interview with Mr Vladimir Lopukhin.
 11. Foreign consultants (Daiwa Europe and Bankers Trust) hired by the state had in fact proposed that Yuganskneftegaz be merged with Yaroslav refinery, but the suggestion was never considered by YUKOS's management since the refinery's capacity was much too small. Details of the proposal may be found in 'Blueprint for Reform: New Policies and Structures for the Russian Oil Industry', (New York: Petroleum Intelligence Weekly, 1992), pp. 56, 58.
 12. Moser and Oppenheimer, 'The Oil Industry', p. 306.
 13. Author's interview with Mr Aleksandr Putilov.
 14. Author's interview with Mr Viktor Ott.
 15. The figure is from Ol'ga Kryshtanovskaya, 'Finansovaya oligarkhiya v Rossii', *Izvestiya*, 10 January 1996. On the issue of the extent of elite change, the elite adaptation thesis claims that the Soviet *nomenklatura* have simply transformed themselves into the new political and economic elites. See, for instance, Olga Kryshtanovskaya and Stephen White, 'From Soviet Nomenklatura to Russian Elite', *Europe-Asia Studies* 48, no. 5 (1996): 711-733; and Hellmut Wollman, 'Change and Continuity of Political and Administrative Elites in Post-Communist Russia', *Governance*, no. 6 (1993): 326-340. In contrast, supporters of the elite competition thesis argue that intra-elite conflicts along generational, ideological or technocratic lines provide a more complex explanation of developments in Russia. See Iosif Diskin, *Rossiya: Transformatsiya i elity* (Moscow: Eltra, 1995); David Lane, 'The Transformation of Russia: The Role of the Political Elite', *Europe-Asia Studies* 48, no. 4 (1996): 535-549; and Ovsei Shkaratan and Yuriy Figatner, 'Starye i novye khozyaeva Rossii', *Mir Rossii* 1, no. 1 (1992): 67-90.
 16. The estimate by the World Bank is from Charles P. McPherson, 'Policy Reform in Russia's Oil Sector', *Finance & Development: A Quarterly Magazine of the IMF*, June 1996. The figure on the stock of foreign direct investment between 1992 and 1995 is from *World Investment Report 2003*, (New York: United Nations, 2003), p. 260. In comparison, during the same period, smaller countries such as the Czech Republic and Poland attracted FDI of US\$7.3 billion and US\$7.8 billion, respectively.
 17. Two separate loans to various production enterprises in the oil sector were extended by the World Bank in 1993 and 1995. Yuganskneftegaz received US\$190 million in 1995, but later cancelled part of the loan due to the conditions attached. For a review of the Bank's policy in Russia, see Bobylev and Cukrowski, 'Russia: Bank Assistance for the Energy Sector'.
 18. Author's interview with Mr Viktor Ivanenko.
 19. Cited in Andrey Fedorov, 'Kadrovye peremeny v YUKOS: Smena rukovodstva na Novokuybyshevskom NPZ', *Kommersant*, 18 April 1995; 'Arbitrazhnye sudy', *Kommersant*, 17 November 1993; and author's interview with Mr Viktor

- Ivanenko. Tarkhov, the Soviet-era chairman of Samara oblast', was removed by Yel'tsin in 1991 for siding with the leaders of the August 1991 coup. Tarkhov then quickly exchanged political power for economic rights when he became the general manager of Samara's NovoKuybyshev oil refinery.
20. See Forbes, 'Hostile Takeover, Russian style'. One of Khodorkovskiy's first task after purchasing YUKOS was to dispatch 300 of his best security personnel to Siberia to physically take over the company's wells and refineries, many of which were in the hands of criminals. He also visited every single financial controller and accountant in the subsidiary companies to let them know that he was their boss. See the account by Hoffman, *The Oligarchs*, pp. 445–446.
 21. Author's interview with Dr Rair Simonyan (in Moscow).
 22. For a review of the relationship between company law on governance, see Katharina Pistor, 'Company Law and Corporate Governance in Russia', in *The Rule of Law and Economic Reform in Russia*, ed. Katharina Pistor and Jeffrey D. Sachs (Boulder: Westview Press, 1997).
 23. Andrey Fedorov and Aleksandr Tutushkin, "Sozdaetsya AO 'YUKOS-Samara': YUKOS ustal zhdat", *Kommersant'-Daily*, 2 June 1995. Muravlenko's non-confrontational style of management was confirmed in interviews conducted with his former colleagues (he stepped down as Chairman of YUKOS in 2003).
 24. Author's interview with Mr Viktor Ivanenko.
 25. This is an argument for concentrated ownership, as cited in J. David Brown and John S. Earle, 'Evaluating Enterprise Privatisation in Russia', *Russian Economic Trends* 8, no. 3 (1999), p. 26. Indeed, there appears to be a positive correlation between an improvement in the firm's performance and the consolidation of majority stakes by manager-owners. See, for instance, Boone and Rodionov, 'Rent Seeking in Russia and the CIS'; and Sergei Guriev and Andrei Rachinsky, 'Ownership Concentration in Russian Industry', (Background paper for Russia CEM 2003: The World Bank and Princeton University, March 2004).
 26. Khodorkovskiy also doubted that the state would ever divest its shareholdings in the oil companies. In his own words, 'I could never believe that the state would sell oil' (Hoffman, *The Oligarchs*, p. 302.) Indeed, only in 1995 did he begin to believe that it was possible to acquire oil companies.
 27. See Aleksey Sukhodoev and Aleksandr Tutushkin, 'Otvstavka glavy 'Yuganskneftegaza': Neftyanogo generala ubrali po sostoyaniyu finansov', *Kommersant'-Daily*, 26 October 1995.
 28. Author's interview with Mr Viktor Ivanenko. YUKOS, and in particular, Yuganskneftegaz, was one of the largest tax debtors in the country at that time, along with AvtoVaz, Nizhnevartovskneftegaz and SIDANKO, as noted in 'Enterprises and Banking', *Russian Economic Trends*, no. 3 (1998), Table 3, p. 36.
 29. This transfer of Purneftegaz effectively dismembered SIDANKO as a VIOC since the company was left with a severe shortage of crude petroleum and excess refining capacity.
 30. Figures on shareholdings are provided by Boone and Rodionov, 'Rent Seeking in Russia and the CIS', p. 9.
 31. Author's interview with Mr Sergey Generalov, former vice-president of YUKOS and ex-minister of Fuel & Energy of the Russian Federation, 30 September 2003, Moscow.

32. A leading newspaper even referred to him as a 'hereditary oilman'. See Dmitriy Butrin, 'Zhizn' posle YUKOSa', *Kommersant' Den'gi*, 26 July 2004.
33. Author's interview with Mr Viktor Ivanenko.
34. See Olson, *Power and Prosperity*. The adoption of a mixed strategy is also discussed by Bernard Black, Reiner Kraakman and Anna Tarassova, 'Russian Privatisation and Corporate Governance: What Went Wrong?', *Stanford Law Review* 52 (2000): 1731–1808.
35. See the argument by Raj M. Desai and Itzhak Goldberg, 'The Vicious Circles of Control: Regional Governments and Insiders in Privatised Russian Enterprises', in *World Bank Working Paper* (Washington DC: World Bank, 2000).
36. The cash privatization programme was promulgated through presidential decree 1535 of 22 July 1994 and entitled 'Basic Guidelines of the State Programme of Privatisation of the State and Municipal Enterprises in the Russian Federation after July 1, 1994'.
37. Promradtekh bank's relatively poor position in a survey of banks between 1992 and 1997 is given by Kryukov and Moe, *The Changing Role of Banks in the Russian Oil Sector*, Table 1, p. 9. The architect of the bank's initial plan was in fact Sergey Generalov, who later joined YUKOS as its vice-president.
38. Recounted in author's interview with Mr Viktor Ivanenko.
39. See the survey of banks in Kryukov and Moe, *The Changing Role of Banks in the Russian Oil Sector*, p. 9.
40. Author's interview with Mr Viktor Ivanenko.
41. They included Menatep itself, Tokobank (20% of its shares were owned by Yuganskneftegaz, a subsidiary of YUKOS), Promradtekh bank (which was used by YUKOS for its public share issue in 1994), Stolichniy Bank (which was one of the banks that provided the guarantee for front companies bidding in the investment tender for YUKOS), and major suppliers or customers of YUKOS, such as Nafta-Moskva, Roskontrakt, Splav and Kurganmashzavod. The Russian origin of these companies was also emphasized by Khodorkovskiy in an interview with Yuriy Katsmanu, 'Interv'yu rukovoditelya banka 'Menatep'', *Kommersant'-Daily*, 1 December 1995.
42. Author's interview with Mr Sergey Generalov.
43. For a report on the shareholders' meeting, see Aleksandr Tutushkin, 'Sobranie aktsionerov kompanii YUKOS: Aktsionery zafiksirovali svoi patriotizm v ustave', *Kommersant'-Daily*, 26 December 1995.
44. Quote by Viktor Ivanenko, vice-president of YUKOS, as cited by Yuriy Ryazhskiy, 'Spiders in the Banks: Oil, Dollars, Scandal', *Moskovskiy Komsomolets*, 30 November 1995 (compiled in *Current Digest of the Post-Soviet Press* XLVII, no. 49, 1995, pp. 8–9). Al'fa bank supposedly intended to turn over part of YUKOS's shares to an American company, the Davis Petroleum Company.
45. Attributing human agency to a collective organization, such as a firm, is a common practice in the field of microeconomics, as discussed in a previous chapter. Prior to the YUKOS affair, Khodorkovskiy directly owned 9.5% of Menatep and controlled another 50% through a special trust arrangement. Menatep, in turn, owned 61% of YUKOS. At the end of 2004, Khodorkovskiy resigned from his positions in YUKOS and Menatep and transferred his 59.5% stake in Menatep to Nevzlin, who lives in Israel. See Irina Reznik,

- Yuliya Bushueva, Aleksandr Bekker and Tat'yana Egorova, 'Khodorkovskiy vyshel', *Vedomosti*, 12 January 2005.
46. See 'Russian State Buys into Commercial Banks', *BBC Summary of World Broadcasts*, 19 May 1995.
 47. This is not to say that large firms do not engage in bribery, merely that they pay a smaller proportion out of their enormous revenues as bribes, compared to smaller firms. Examples of empirical studies to this effect include Hellman, Jones and Kaufman, 'Seize the State, Seize the Day'; Joel S. Hellman and Daniel Kaufman, 'The Inequality of Influence', (Washington DC: World Bank, 2003); and Irina Slinko, Evgeny Yakovlev and Ekaterina Zhuravskaya, 'Institutional Subversion: Evidence from Russian Regions', (Moscow: Centre for Economic and Financial Research, 2003).
 48. In many of the loans-for-shares auctions, the auction organizer was also the leading candidate to acquire the collateralized shares. This was the case, for example, with Norilsk Nickel, YUKOS and SIDANKO. In other cases, the auction organizer was an ally of the leading candidate.
 49. These figures are for equity capital as at 1 July 1997 as compiled by Kryukov and Moe, *The Changing Role of Banks in the Russian Oil Sector*, p. 16.
 50. These allegations are repeated in author's interview with Dr Rair Simonyan (Moscow); author's interview with Mr Aleksandr Putilov; Michael Bernstam and Alvin Rabushka, *Fixing Russia's Banks: A Proposal for Growth* (Stanford: Hoover Institution Press, 1998); and Hoffman, *The Oligarchs*, pp. 316–318.
 51. Foreigners were, in fact, banned from participating in auctions for 8 of the 12 companies on offer.
 52. Konstantin Kagalovsky, a former vice-president of Menatep and YUKOS, admitted to drafting the condition with this intention in mind. See Freeland, *Sale of the Century*, pp. 175–176.
 53. See, for example, Gleb Baranov, 'Press-konferentsiya YUKOSa i 'Menatepa': Bank nameren borot'sya za kontrol' nad kompaniey', *Kommersant'-Daily*, 10 November 1995.
 54. This account is taken from Hoffman, *The Oligarchs*, p. 316.
 55. Khodorkovskiy later claimed to be 'simply in shock' that Vinogradov had gone back on his word. See the previously cited interview in *Kommersant'-Daily* by Katsmanu, 'Interv'yu rukovoditelya banka "Menatep"'.
 56. From 'Sovmestnoe zayavlenie kommercheskikh bankov', *Kommersant'-Daily*, 28 November 1995.
 57. *Ibid.*
 58. See 'Vedomosti: Minfin zayavlyayet', *Kommersant'-Daily*, 7 December 1995.
 59. As cited in 'Zampred TSB preduprezhdaet bol'shuyu troiku', *Kommersant'-Daily*, 1 December 1995.
 60. See Yaroslav Skvortsov, 'Sobranie Moskovskogo Bankovskogo Soyuza: Bankiry ponyali, shto nemnogo pereborshchili', *Kommersant'-Daily*, 5 December 1995; and 'GKI otvetil bankam: Komitet postaralsya proyasnit' vse neyasnosti', *Kommersant'-Daily*, 2 December 1995.
 61. Quote by Stephen O'Sullivan, an investment banker, as cited by Poul Funder Larsen, 'Menatep Maneuvers to Give Itself YUKOS Control', *Moscow Times*, 21 November 1996.
 62. They included Kagalovskiy, who was Russia's former representative to the IMF and who drafted the condition banning foreigners from YUKOS's investment

- auction, Leonid Nevzlin, one of Khodorkovskiy's earliest business partners, and Aleksandr Samusev, who was a former Deputy Minister of Fuel and Energy and former Finance Minister. All three were given positions as vice-presidents in YUKOS.
63. YUKOS's efforts to impose centralized control over its subsidiaries were widely documented in the media. See, for instance, Konstantin Lange and Elena Tret'yakova, 'Soglashenie "Menatepa"', YUKOSa i Samary: Neftyaynaya kompaniya i bank ne obidyat oblast', *Kommersant'-Daily*, 23 March 1996; Rustom Narzikulov, 'Muravlenko budet rukovodit' "Rospromom"', *Nezavisimaya gazeta*, 24 May 1996; Aleksandr Tutushkin, 'Peremeny v kompanii YUKOSa: Syd'bonosnye resheniya YUKOS primet za granitsey', *Kommersant'-Daily*, 18 April 1996; and Aleksandr Tutushkin, 'YUKOS zavershil restrukturalizatsiyu: Kompaniya posadila "dochek" na byudzhets', *Kommersant'-Daily*, 4 October 1996.
 64. The figures are from Aleksandr Tutushkin, 'Sobranie aktsionerov YUKOSa: Nefyanoy kompanii stanet na tret' bol'she', *Kommersant'-Daily*, 17 September 1996. The widespread use of promissory notes and barter resulted in general demonetization and the existence of a 'virtual economy' in Russia, as explained by Clifford Gady and Barry Ickes, 'Russia's Virtual Economy', *Foreign Affairs* 77, no. 5 (1998): 53–67.
 65. The decree was entitled 'On Measures to Eliminate Arrears of Joint-Stock Companies on Wages and Taxes'.
 66. Alexander Radygin, 'Ownership and Control of the Russian Industry' (paper presented at the Conference on Corporate Governance in Russia, Moscow, 31 May–2 June 1999), p. 14.
 67. The US\$509.7 million is derived as follows: US\$350 million for the investment tender in 1995, plus US\$159 million for the collateral auction in 1995, plus US\$700,000 for the auction of pledged shares in 1996. The valuation of the company according to market capitalization is from data compiled in an annual rating of the 200 leading companies in Russia by Ekspert magazine. The data are available at <http://www.expert.ru/expert/ratings/exp200>.
 68. From Juliet Johnson, 'Russia's Emerging Financial-Industrial Groups', *Post-Soviet Affairs* 13, no. 4 (1997), footnote 33, p. 351.
 69. Quote by Vinogradov from Poul Funder Larsen, 'Bank Battles Turning Ugly as Rivals Sling Mud', *Moscow Times*, 12 July 1996. For a more in-depth review, see Mikhail Loginov, 'Skandal vokrug izvestnogo banka: Proverka Inkombanka proizvela bol'shoy shum', *Kommersant'-Daily*, 12 July 1996.
 70. See Mikhail Loginov, 'Novyy etap bankovskogo krizisa: Vot i novyy avgust podoshel', *Kommersant'-Daily*, 16 July 1996.
 71. Kokh, *The Selling of the Soviet Empire*, p. 157. Kazakov's concessions on privatization were enumerated in the previous chapter.
 72. See comments by analysts in Poul Funder Larsen, 'Banks Likely to Keep Shares', *Moscow Times*, 31 August 1996. The options to redeem the collateralized shares included exchanging them for government bonds and raising money to pay for their redemption by selling part of the government's hard-currency reserves or using funds previously earmarked for the reconstruction of Chechnya.
 73. The 'two keys' aspect of GKI's revision to the loans-for-shares scheme was discussed in the previous chapter.

74. So concerned was Minister Shafranik about his future employment prospects that the leading oil generals agreed that an oil company, SIDANKO, would be created for him out of Rosneft, so that he would 'feel more secure and make independent decisions'. From author's interview with Mr Aleksandr Putilov.
75. For more details, see Aleksandr Bekker, 'Mintopenergo sokhranil vliyanie v TEKE: Nich'ya na promezhutochnom finishe', *Segodnya*, 15 July 1996; and Rustam Narzikulov, 'Neftyanye aktsii pod dvoynym pressom', *Nezavisimaya gazeta*, 10 April 1996.
76. Viktor Ivanov, 'Privatizatsiya v TEKE: Neft' ostaetsya v gossobstvennosti', *Kommersant'-Daily*, 12 September 1996.
77. Andrey Bagrov, 'Novaya kontseptsiya zalogovykh auktsionov: Sovet bezopasnosti polozhil glaz na pakety i banki', *Kommersant'-Daily*, 21 September 1996.
78. For a comprehensive analysis of how Khodorkovskiy consolidated YUKOS's control over its subsidiaries, see Yuko Iji, 'Corporate Control and Governance Practices in Russia', in *Centre for the Study of Economic & Social Change in Europe Working Paper* (London: June 2003). Other oil companies also engaged in lengthy battles with minority shareholders, as recounted by Black, Kraakman and Tarassova, 'Russian Privatisation and Corporate Governance'.
79. Further details about the report were noted in the previous chapter.
80. Investigations revealed later that the shell company, Baykal Finans, used to bid for Yuganskneftegaz during the auction, was owned and financed by Rosneft'. It is as yet unclear how Rosneft' paid for its purchase, with observers claiming that money was either taken from the budget or Stabilization Fund or perhaps borrowed from Russian or even Chinese banks. See Julia Latynina, 'The Yugansk Coverup Operation', *Moscow Times*, 30 December 2004; Irina Granik and Nikolay Vardul', 'Dissident: god velikogo obloma', *Kommersant'-Daily*, 29 December 2004; 'Rosneft' zalozhila sebya po-krupnomu', *Kommersant'*, 26 August 2005; and 'Kto oplatil "Yugansk"', *Vedomosti*, 3 June 2005.
81. Quote by Igor' Shuvalov, Putin's senior economic advisor, as noted in 'Putin's Economic Aide Warns Other Oil Companies May Face Back Tax Bill following Yukos', *Associated Press*, 28 October 2004 (printed in *Johnson's Russia's List* no. 8428).
82. Quote by Putin as cited by Seth Mydans, 'Putin Calls Arrests Part of a Crackdown', *International Herald Tribune*, 7 November 2003.
83. The quote by Shuvalov is from 'Putin's Economic Aide'.
84. These tax privileges enjoyed by internal-offshore zones have since been rescinded. For an account of the tax privileges enjoyed by companies operating in these zones, see Vadim Visloguzov, 'Novyy poryadok: takoy ofshor im ne nuzhen', *Kommersant'-Daily*, 18 November 2003.
85. The role of Dubov is analysed in greater detail by Aleksey Nedogonov, 'YUKOS vs SRP: Chem produktovana bor'ba Mikhaila Khodorkovskogo s rezhimom razdela produktsii', *RusEnergy.com*, 12 February 2003.
86. Quote by Gaydar as cited in 'A Russian Reformer Sees Pitfalls Ahead', *Business Week*, 12 December 2003.
87. For an account of the offshore companies operated by YUKOS in foreign tax havens and the actual workings of 'transfer pricing' in YUKOS, see Jeanne

- Whalen, 'A Jilted Banker's View of Khodorkovsky's Empire', *Wall Street Journal*, 2 January 2003; and Iji, 'Corporate Control and Governance Practices in Russia'. For a perspective that transfer pricing was not, in fact, aimed at minimizing taxes but an accounting anomaly, see Nat Moser, 'Transfer Pricing and Calculating Russia's GDP', *Moscow Times*, 10 June 2004.
88. Estimates by independent and government analysts are from Elizabeth LeBras and Natalya Neimysheva, 'Oil Evades \$9bln in Taxes', *Moscow Times*, 29 November 2000.
 89. The comparison of effective tax rates for YUKOS and Surgutneftegaz in 2000 is from 'A Taxing Time for Oil', (Moscow: Renaissance Capital, 21 January 2004).
 90. From 'A Taxing Time for Oil'; and Anna Raff, 'Companies Can't Wait to Pay the Tab in Russia', *Wall Street Journal*, 21 September 2004.
 91. Recounted in Mariya Ignatova, 'Nalogoviki vernutsya v "Sibneft"' i "Rosneft"', *Izvestiya*, 13 May 2003.
 92. Aleksey Polukhin, 'Nalogovyy prays', *Novaya gazeta*, 11 December 2003. See also Boris Grozovskiy, Svetlana Ivanova, Igor' Fedyukin and Aleksey Nikol'skiy, 'Vse biznesmeny delali eto', *Vedomosti*, 29 October 2003.
 93. 'Putin Criticises Big Business', *AFP*, 9 December 2003 (printed in *Johnson's Russia's List* no. 7461). In fact, it has been noted that at that time, Russia had 'no legislation requiring tax avoidance schemes to be submitted to the tax authorities in advance for a check on their acceptability. US laws do require this, but Russia's laws, like those of most western countries, do not'. See Philip Hanson, 'Observations on the Cost of the Yukos Affair to Russia', *Post-Soviet Affairs* 46, no. 7 (2005), p. 483.
 94. Claim by Fedor Chayka, 'Gosudarstvo raspravilos' s 'YUKOSom', *Izvestiya*, 30 December 2004. For an account of various solutions to settle the back tax claims, see 'YUKOS Ready to be Nationalised?', *RIA RosBusinessConsulting*, 21 June 2004 (printed in *Johnson's Russia's List* no. 8263); Catherine Belton, 'Ally Offers to Bail Out Yukos', *Moscow Times*, 26 July 2004; and Tat'yana Gurova, Maksim Rubchenko and Andrey Tsunskiy, 'Delo YUKOSa: Cherez dvoynuyu sploshnyuyu', *Ekspert*, 12 July 2004.
 95. Stanislav Menshikov, 'Plyaski s volkami vokrug nefti', *Slovo*, 23 July 2004. The primacy of 'property redistribution to the *siloviki*' as a motivation for the YUKOS affair was also argued by Vlad Sobell, 'Russia Post-Yukos', Daiwa Institute of Research Europe Limited, 28 July 2004 (printed in *Johnson's Russia's List* no. 8307); Shevtsova; Daniel Kimmage, 'Why the Conventional Wisdom about Russia is Wrong', *In the National Interest*, 10 January 2004 (available from <http://www.inthenationalinterest.com>); Yuliya Latynina, 'Navstrechu vyboram: Esli v Rossii peredel sobstvennosti – eto k vyboram', *Novaya gazeta*, 15 May 2003; and Vadim Volkov, 'The Yukos Affair: Terminating the Implicit Contract', in *PONARS Policy Memo* (Washington DC: Centre for Strategic and International Studies, November 2003).
 96. The rise of the *siloviki* has been a source of concern for some scholars who warn of the danger of a militocracy and the Sovietization of the state. See Olga Kryshchanovskaya and Stephen White, 'Putin's Militocracy', *Post-Soviet Affairs* 19, no. 4 (2003).
 97. A profile of leading members of the *siloviki* is given by Il'ya Bulavinov, 'Politicheskiy rasklad: koloda Rossiyskoy Federatsii', *Kommersant'-Vlast'*,

- 1 December 2003; and Dmitriy Kamyshev, 'Apparat: Kremlevskaya desyatka', *Kommersant'-Vlast'*, 19 April 2004. Ustinov's son Dmitriy is, in fact, married to the daughter of Igor' Sechin, widely regarded as the chief patron of the *siloviki*.
98. The dispute was over YUKOS's purchase of 19% of Yeniseyneftegaz, which was partly owned by Rosneft'. For more on Bogdanchikov's role in the YUKOS affair, see Aleksandr Losev, 'Priglasenie "YUKOSa" na kazan': v roli topora – Bogdanchikov', *Novaya gazeta*, 17 July 2003. Other points of contention between Rosneft' and YUKOS included the need for production-sharing agreements and the acquisition of Severnaya Neft' oil company by Rosneft'.
 99. See Losev, 'Priglasenie "YUKOSa" na kazan'; and Elena Dikun, "'Delo Yukosa" v sude', *Moskovskiy novosti*, 21 May 2004.
 100. By 1999, Putin had already accepted that Russia's 'soft power' rather than its military strength would define the country's power and greatness. See Putin, 'Russia at the Turn of the Millennium'. Moreover, it was probably the Kursk catastrophe in August 2000 that forced Putin to accept the fact that the nuclear arsenal was a huge problem rather than a usable asset for Russia. See Pavel Baev, 'Putin Reconstitutes Russia's Great Power Status', in *PONARS Policy Memo* (Washington DC: Centre for Strategic and International Studies, November 2003).
 101. Putin's views on the development of the mineral sector in Russia were set out in his dissertation, an abstract of which was published. Although the dissertation has since been found to be largely plagiarized and possibly ghostwritten, it is still reflective of Putin's perspectives since he authorized its publication in his name. See Harley Balzer, 'The Putin Thesis and Russian Energy Policy', *Post-Soviet Affairs* 21, no. 3 (2005): 210–225; Martha Brill Olcott, 'Vladimir Putin and the Geopolitics of Oil' (James A. Baker III Institute for Public Policy of Rice University, Texas, October 2004); and David R. Sands, 'Researchers Peg Putin as a Plagiarist over Thesis', *The Washington Times*, 25 March 2006.
 102. See Peter Lavelle, 'OPEC Dethroned, Putin's "KremPEC" Arrives', *Untimely Thoughts*, 16 August 2004 (available from <http://www.untimely-thoughts.com>); Sergey Pokrovskiy, 'Kreml'neftegaz: rasmyshleniya u paradnogo pod'ezda', *Neftegazovaya Vertikal'* (no. 16) 2004; Elena Chinyaeva and Peter Rutland, 'The Yukos Affair: Politics trumps Economics', *Russia & Eurasia Review*, 22 July 2003; and Artem Yeyskov, 'Nationalizatsiya YUKOSa', *Izvestiya*, 3 July 2004.
 103. Rail is an alternative means of transporting crude, but is three times more expensive than pipelines. See Mikhail Khodorkovskiy, 'Integration and Consolidation in the Russian Oil Industry', (Presentation at Renaissance Capital's Annual Investors' Conference, Moscow: June 2004). Hence, pipelines remain the dominant mode of transportation, accounting for around 85% of Russian oil exports, as cited by *Russia Oil & Gas Yearbook 2003: Piping Growth* (Moscow: Renaissance Capital, July 2003), p. 75.
 104. From Semen Kukes, 'Zven'ya odnoy tsepi', *Neftegazovaya vertikal'*, no. 11, 2003.
 105. For instance, in a reference to Transneft' and its monopoly over pipelines, he remarked, 'Don't tell me where to invest my money. I have my own plans and I'm ready to take risks.' Quote cited by Michael S. Lelyveld,

- 'Russia: Oil Giant, Pipeline Monopoly at Odds', *Radio Free Europe/Radio Liberty*, 29 January 2003 (available from <http://www.rferl.org>). In contrast, Alekperov of LUKoil was careful not to mention Transneft' by name, preferring instead to note that 'state monopolism in any of its manifestations hinders the development of the Russian oil and gas sector'. From Sergei Blagov, 'Russia's Pipeline Game', *Financial Sense Online*, 15 June 2004 (available at <http://www.financialsense.com/editorials/kwr/2004/0615.html>).
106. Current Russian legislation provides equal access to all oil companies.
 107. From 'YUKOS nameren poluchit' 50% v proekte "Angarsk-Datsin"', *Vremya novostey*, 10 December 2002.
 108. These plans were thrown into disarray when Kas'yanov declared, in January 2003, that current and future oil pipelines in Russia would remain the property of the state, although private investment would be welcome. The current prime minister, Mikhail Fradkov, has likewise reiterated that the oil pipeline network 'is our infrastructure and our advantage over other countries, and we must keep an eye on it'. These remarks are from 'Prime Minister: State to Keep Control of Pipelines', *Radio Free Europe/Radio Liberty Business Watch*, 14 January 2003; and Denis Rebrov, 'Fradkov truby ne otdast', *Vremya novostey*, 12 April 2004.
 109. Quote by Pavel Kushnir, an oil analyst at United Financial Group, as cited by Catherine Belton, 'Kremlin, Big Oil on Collision Course', *Moscow Times*, 28 January 2003.
 110. The Angarsk–Daqing route totals 2400 km, whereas the alternative is 3800–4200 km depending on the actual routing.
 111. Following a study on the environmental impact of the Far Eastern pipeline, Transneft' agreed to re-route its proposed pipeline further away from Lake Baykal, with Tayshet (in Irkutsk) and not Angarsk as the starting point (Tat'yana Zykova, 'Neftepravod "otodvinut" na 400 kilometrov ot Baikala', *Rossiyskaya gazeta*, 24 May 2006). On 30 December 2004, the Russian government finally agreed to proceed with the Tayshet-Perevoznaya (near Nakhodka) pipeline project, as reported in Varvara Aglanish'yan, 'Premer uspel v poslednyy moment: pravitel'stvo razreshilo stroit' nefteprovod', *Izvestiya*, 11 January 2005.
 112. Vladislav Shorokhov, 'Truboprovody: rossiysko-amerikanskiy energodialog', *Ekspert*, 7 April 2003. For a similar argument that Khodorkovskiy undermined the state's prerogative in foreign policy issues, see Aleksandr Postnikov, 'Delo "YUKOSa"', *Novoe vremya*, 28 December 2003.
 113. Putin, 'Russia at the Turn of the Millennium'.
 114. See Paul Merolli, 'Yukos Deal Sounds Right for Exxon, Chevron', *The Oil Daily*, 15 September 2003; and Gregory White and Anita Raghavan, 'Exxon Signals Interest in a Deal with Yukos', *Wall Street Journal Europe*, 12 December 2003. For Russian scholar Harley Balzer, this is the 'most convincing' explanation for the YUKOS affair (see Balzer, 'The Putin Energy Thesis and Russian Foreign Policy').
 115. For more information on the basis of the Al'fa group's close association with Putin, see Chapter 5.
 116. 'Implications of the Yukos Scandal for Russian Domestic Politics: A Discussion Meeting with Lilia Shevtsova', (Washington DC: Carnegie Endowment for International Peace, 16 September 2004). For a similar

- perspective, see Tat'yana Gurova and Aleksandr Privalov, 'Vybor prezidenta: my teryaem ego!', *Ekspert*, 3 November 2003.
117. Quote by an anonymous expert as cited in Maksim Blant, 'Ne YUKOSom edinyim', *Yezhenedel'nyy zhurnal*, 15 November 2004. Putin's ambitions to make Russia an energy superpower is also discussed by Fiona Hill, 'Oil, Gas and Russia's Revival' (Report for the Foreign Policy Centre, September 2004).
 118. Masha Lipman, 'The Taming of a Tycoon – and of Russia', *The Washington Post*, 16 June 2004.
 119. From Tchurilov, *Lifeblood of Empire*, p. 224.
 120. Recounted in author's interview with Mr Viktor Ivanenko.
 121. See William Tompson, 'Putin and the "Oligarchs": A Two-Sided Commitment Problem', in *Leading Russia: Putin in Perspective*, ed. Alex Pravda (Oxford: Oxford University Press, 2005).
 122. According to Khodorkovskiy's security chief, in the event of the tycoon being arrested, 'the calculation was that the West would talk to Putin and ask him why he was holding such people behind bars . . . The calculation was that Putin would receive a friendly warning that this was just not done by people who sit on the G8'. As cited in Catherine Belton, 'The Friends and Foes of a Rising Oilman', *Moscow Times*, 27 May 2005.
 123. Gevorkyan, Timakova and Kolesnikov, *First Person*, p. 186.
 124. Author's interview with Mr Sergey Molozhaviy.
 125. The roles of these and other bureaucracies pertaining to privatization policy are from *The Investment Environment in the Russian Federation: Laws, Policies and Institutions* (Paris: Organisation for Economic Co-operation and Development, 2001), p. 149; and Nelson and Kuzes, *Property to the People*, p. 126.
 126. From author's interview with Mr Sergey Generalov.
 127. Author's interview with Dr Rair Simonyan (Moscow).
 128. Only Chubays and Igor' Yurgens (chairman of the RSPD) publicly voiced their disapproval about Khodorkovskiy's arrest. See Anzhela Sikamova, Ol'ga Tropkina, Yevgeniy Mazin and Petr Orekhin, 'Oligarkhi na pereput'e: soratniki ne toropyatsya podderzat' Mikhaila Khodorkovskogo', *Nezavisimaya gazeta*, 28 October 2003.
 129. As quoted by Julia Latynina, 'Garden Parties and the Criminal Code', *St Petersburg Times*, 30 September 2003.
 130. As noted in various entries in Boris Yeltsin, *Against the Grain: An Autobiography*, trans. Michael Glenny (New York: Summit Books, 1990). Alexander Lukin has also noted that for Yel'tsin, democracy was not always an instrument to consolidate power and has cited the case of Yel'tsin pursuing bilateral treaties with Russia's republics even after he had won election as the country's president. See Lukin, *The Political Culture of the Russian 'Democrats'*, p. 293.
 131. The book does not share Olcott's tendency towards an overly deterministic explanation of the YUKOS affair, that is, that Putin was merely following up on ideas espoused in his dissertation about the role of the state in developing mineral resources (see Olcott, 'Vladimir Putin and the Geopolitics of Oil'). Such a perspective fails to satisfactorily explain why the informal July 2000 agreement was created in the first place, or why Putin agreed to proceed with the sale of Slavneft' in 2002.

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1. Roland Nash, chief economist at a leading investment bank, Renaissance Capital, as cited by Gregory Feifer, 'The Kremlin's Big Sell-Off', *Moscow Times*, 19 December 2000.
2. Vladimir Malin, head of the Russian Federal Property Fund, as cited in 'Russian Government sells Onako state oil company for \$1.08 billion', *The Associated Press*, 19 September 2000.
3. Farit Gazizullin, Minister of Property Relations (the renamed GKI), as cited in *Ibid.*
4. Boris Kagarlitsky, "'Political Capitalism" and Corruption in Russia', *Links* (May–August 2002) available at <http://www.dsp.org.au/links/back/issue21/Kagarlitsky.htm>.
5. Author's interview with Mr Aleksandr Putilov.
6. See Leonid Brodskiy, 'Novye naznacheniya v pravitel'stve: Anatoliy Fomin – pervyy zamministra topliva i energetiki', *Kommersant*, 8 April 1993.
7. See *Energy Policies of the Russian Federation*, p. 97.
8. Author's interview with Mr Anatoliy Fomin, ex-deputy Minister of Fuel & Energy of the Russian Federation and former President of Slavneft', 9 February 2004, Moscow.
9. 'Zastrelen neftyanoy magnat', *Kommersant*, 6 August 1994.
10. See Vadim Belykh, 'Chernaya krov"', *Izvestiya*, 4 January 1997. Fomin still retains a close relationship with Alafinov. Fomin is today the president of Bank Yugra while Alafinov is a member of the Board of Directors. Both of them, along with some of their family members, are the sole shareholders of the bank.
11. Arthur F. Bentley, *The Process of Government: A Study of Social Pressures*, 1995 ed. (New Brunswick: Transaction Publishers), p. 117.
12. Kenneth A. Shepsle, 'Comment on Derthick and Quirk', in *Regulatory Policy and the Social Sciences*, ed. Roger G. Noll (Berkeley: University of California Press, 1985), p. 233.
13. See, for example, Robert C. Lieberman, 'Ideas, Institutions and Political Order: Explaining Political Change', *American Political Science Review* 96, no. 4 (December 2002); John Kurt Jacobsen, 'Much Ado about Ideas: The Cognitive Factor in Economic Policy', *World Politics* 47, no. 2 (1995): 283–310; and Dietmar Braun, 'Interests or Ideas?', in *Public Policy and Political Ideas*, ed. Dietmar Braun and Andreas Busch (Cheltenham: Edward Elgar, 1999).
14. See Igor V. Timofeyev, 'The Development of Russian Liberal Thought since 1985', in *The Demise of Marxism-Leninism in Russia*, ed. Archie Brown (Basingstoke: Palgrave Macmillan, 2004); and Lukin, *The Political Culture of the Russian 'Democrats'*.
15. See Barry R. Weingast, 'A Rational Choice Perspective on the Role of Ideas: Shared Belief Systems and State Sovereignty in International Co-operation', *Politics & Society* 23, no. 4 (1995): 449–464; Geoffrey Garrett and Barry R. Weingast, 'Ideas, Interests and Institutions: Constructing the European Community's Internal Market,' in *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*, ed. Judith Goldstein and Robert O. Keohane (Ithaca: Cornell University Press, 1993); James G. March and Johan P. Olsen, 'The New Institutionalism: Organisational Factors in Political Life', *American Political*

- Science Review* 78, no. 3 (1984): 738–749; and Paul A. Sabatier and Hank C. Jenkins-Smith, 'The Advocacy Coalition Framework: An Assessment', in *Theories of the Policy Process*, ed. Paul A. Sabatier (Boulder, Colorado: Westview Press, 1998).
16. The term is borrowed from Margot Light, 'Foreign Policy Thinking', in *Internal Factors in Russian Foreign Policy*, ed. Neil Malcolm et al. (Oxford: Clarendon Press, 1996), p. 34. See also Adranik Migranyan, 'Russia and the Near Abroad: The Entire Space of the Former USSR is a Sphere of Russia's Vital Interests', *Nezavisimaya gazeta*, 18 January 1994 (compiled in *Current Digest of the Post-Soviet Press*, XLVI, 7, 1994, p. 6).
 17. Russia's defence of its various interests in the CIS is analysed by Alex Pravda, 'Foreign Policy', in *Developments in Russian Politics 5*, ed. Stephen White, Alex Pravda and Zvi Gitelman (Basingstoke: Palgrave Macmillan, 2001); Dov Lynch, *Russian Peacekeeping Strategies in the CIS: The Cases of Moldova, Georgia and Tajikistan* (Basingstoke: Palgrave Macmillan, 2000); and Thomas Goltz, 'Letter from Eurasia: The Hidden Russian Hand', *Foreign Policy*, no. 92 (1993): 92–116.
 18. Aleksandr Romanikhin, 'Neftyanye kompanii slishkom uvleklis' eksportom syroy nefiti: Rossiya zakupaet vse bol'she benzina na granitsey', *Segodnya*, 14 August 1996.
 19. See 'Russia Prepares to Take a Hard Line with the CIS', *International Herald Tribune*, 20–21 October 1994; and 'Russian Subsidies for Belarus', *Financial Times Energy Newsletters: East European Energy Report*, 26 August 1994.
 20. See 'Belarussian Supply Company becomes Part of Gazprom', *BBC Summary of World Broadcasts*, 17 September 1993; and Mikhail Shimansky, 'Opposition Accuses Government of Selling off Belarus', *Izvestiya*, 15 December 1992 (compiled in the *Current Digest of the Post-Soviet Press*, XLV, 50, 1994, p. 23).
 21. From author's interviews with Mr Anatoliy Fomin and Mr Dmitriy Romanov.
 22. As quoted by Lee Hockstader, 'Belarus Votes to Go Back to the Future: Winner reflects Nostalgia for good old Soviet days', *The Washington Post*, 16 July 1994. The deputy prime minister appointed by Lukashenko was Valeriy Kokarev.
 23. See Romanikhin, 'Neftyanye kompanii slishkom uvleklis' eksportom syroy nefiti'.
 24. See Anna Baneva, 'Rossiyskie neftyanye kompanii v Belorussii: Rossiyskaya nef't' obespechit rekonstruktsiyu belorusskikh zavodov', *Kommersant'-Daily*, 23 November 1995; and 'Belarus to Swap Slavneft Stake for Refinery Stake', *Financial Times Energy Newsletters: East European Energy Report*, 1 April 1996.
 25. Author's interview with Mr Dmitriy Romanov.
 26. It was widely assumed that Kuz'min's death was a result of business disputes within the oil industry. See the report in the previously cited article by Belykh, "Chernaya krov".
 27. For examples of such optimistic assessments, see Theodore Kim, 'Chubais Forces the Pace', *Euromoney*, September 1997; and Chrystia Freeland, 'Russia: New Signs of Hope Appear', *Financial Times (London)*, 19 September 1997.
 28. Author's interview with Mr Dmitriy Romanov.
 29. 'Uderzhit li Duma 'Slavneft'?', *Rossiyskaya gazeta*, 18 September 1998.
 30. Al'fa issued a statement denying its involvement in the law suit. See 'Konkurs po 'Slavnefti' sorval monter Samodurov', *Russkiy Telegraf*, 24 March 1998;

- and Aleksandr Vladimirov, 'Konkurs po prodazhe aktsiy ne sostoyalsya', *Nezavisimaya gazeta*, 28 March 1998.
31. From author's interview with Mr Dmitriy Romanov.
 32. See Sujata Rao, 'Tyumen Oil Auction Suspended by Court', *Moscow Times*, 21 November 1997.
 33. See, for example, Gary Peach, 'Big Oil Sells-Offs Laudable, But Haste May Make Waste', *Moscow Times*, 11 November 1997.
 34. Fomin's formidable reputation was a source of consternation among GKI officials. According to its deputy minister at that time, no one wanted to put their name on the order to dismiss him as president of Slavneft' in 1998: 'everybody in the ministry was afraid to do it. They were afraid that they could be killed for that because he had a very bad image . . . Fomin is quite an unusual man, an extraordinary man'. As recounted in author's interview with Mr Sergey Molozhaviy, former deputy minister of GKI, 10 February 2004, Moscow.
 35. This observation refers only to auctions for the first share placement of a company. Subsequent placements of additional shares, such as those by TNK, are excluded.
 36. Figure cited in *Russian Economy: Trends and Perspectives* (Moscow: Institute for Economy in Transition, January 2003).
 37. This new decree 1148, dated 4 November 1997, replaced the corresponding provision contained in the previous decree 1403 of November 1992. It declared that the removal of the limit would apply to auctions of oil companies announced after the introduction of the decree (for example, Slavneft' and Rosneft') and not to those announced prior to the decree (such as KomiTEK, Norsi Oil, VNK).
 38. Author's interview with Mr Dmitriy Romanov.
 39. Jeanne Whalen, 'Wary Bidders Dampen "98 Oil Sell-Offs"', *Moscow Times*, 24 January 1998. Similar claims are cited in 'Russia Struggling to Sell-Off Oil Jewels in Crown', *Agence France Press*, 13 May 1998; and 'World Market Instability Threatens Russian Privatisation', *Agence France Press*, 11 November 1997.
 40. Figure cited in *Russian Economy in 1998: Trends and Perspectives* (Moscow: Institute for Economy in Transition, 1999).
 41. For example, the market capitalization of YUKOS fell from US\$9.3 billion to US\$1.4 billion to US\$0.3 billion in 1997, 1998 and 1999, respectively, while corresponding figures for Sibneft' were US\$5.4 billion, US\$0.9 billion and US\$1.5 billion. Figures from annual company ratings compiled by *Ekspert* magazine are available at <http://www.expert.ru/expert/ratings/exp200>.
 42. Prices are based on the average annual Urals spot crude prices, as compiled in *Energy Prices & Taxes: 3rd Quarter 2004* (Paris: International Energy Agency, 2004), p. 4.
 43. Officially, Fomin was dismissed because of mounting debts owed by Mozyr to Slavneft' after April 1998. For an alternative perspective that links Fomin's dismissal to his conflicts with Sergey Kiriyenko, see Vladimir Vostrukhin and Pavl Kuybyshev, 'Rossiyskie kompanii proigrali frantsuzskoy v bor'be za neftyanoy rynek', *Kommersant'-Daily*, 2 October 1998. According to a former vice-president of Slavneft', Duma used to remark to him that what was significant was not that he had been appointed but, rather, that Fomin had

- been dismissed; in this connection, it was opined during the interview that the 'young reformers' could have appointed 'any Ivanov, Petrov or Sidorov who happened to be in the right place' at that time (from author's interview with Dmitriy Romanov).
44. Cited in 'Slavneft President Holds that Government Should Possess Controlling Shares of Oil Company', *SKRIN Market and Corporate News*, 22 October 1999. See also 'Duma Throws in the Towel at Slavneft', *Neftne Compass*, 11 November 1999.
 45. Petr Sapozhnikov, 'Duma pod voprosom', *Kommersant'-Daily*, 11 November 1999.
 46. For these and more on Gutseriev's views, see Lyudmila Romanova, 'Mikhail Gutseriev: Prezident "Slavnefti" – dolzhnost' skoree politicheskaya', *Nezavisimaya gazeta*, 12 February 2000; Valeria Korchargina, 'New Boss has Ambitious Vision for Slavneft', *Moscow Times*, 8 February 2000; and Petr Sapozhnikov, "'Slavneft'" mozhet vernut' TNK gosudarstvu', *Kommersant'-Daily*, 21 July 2000.
 47. The announcement was made in late May 2000 by the head of TNK, Simon Kukes, who also revealed that TNK would participate in the auctions for 19.68% of Slavneft'.
 48. 'Boy bez pravil: ili kto budet kontrolirovat' "Slavneft"?' *Neft' i Kapital*, no. 9, 2000.
 49. Gutseriev denied any involvement in the raids and threatened to sue TNK for slander. See Mikhail Zimin, 'Malen'kaya neftyanaya vojna: Iskhod konflikta mezhdru TNK i "Slavneft"'yu' poka ne reshen', *Segodnya*, 5 August 2000 and the interview with Gutseriev by Sapozhnikov, "'Slavneft'" "mozhet vernut" TNK gosudarstvu'.
 50. Gutseriev's relationship with Rushailo is documented in various sources including author's interview with Mr Andrey Shtorkh, former vice-president of Slavneft', 1 October 2003; Yuliya Latynina, 'Ukrepnenie gorizontali vlasti', *Novaya gazeta*, 29 April 2002; and Yuliya Latynina, 'Oligarkh, kotoryy ne sel chizhika', *Novaya gazeta*, 20 May 2002.
 51. For a study of the different types of private protection arrangements in Russian business, see Vadim Volkov, *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism* (Ithaca: Cornell University Press, 2002); and Frederico Varese, *The Russian Mafia: Private Protection in a New Market Economy* (Oxford: Oxford University Press, 2001).
 52. See interview by Sapozhnikov, "'Slavneft'" mozhet vernut' TNK gosudarstvu'.
 53. In fact, according to the 1997 privatization law, the Duma had to right to approve lists of strategic enterprises for privatization. However, its refusal to approve the lists since 1997 had always been overcome by the issuing of presidential decrees on the matter. For the Property Ministry, this represented an undesirable legal loophole and it wanted to permanently deny this channel to the Duma by introducing a new, revised law on privatization.
 54. Sergey Pravosudov, "'Slavneft' i TNK vedut pozitsionnuyu vojnu", *NG Politekonomia*, 20 June 2000.
 55. Freeland, *Sale of the Century*, pp. 102–103.
 56. The charges were later dropped after Sukhanov was elected president of Slavneft'. For an account of the investigations into Sukhanov's role, see

- Aleksandr Petrovykh, 'Skandaly: "Slavneft"'yu' zanimayutsya v Gosdume, MVD i Genprokurature', *Novaya gazeta*, 6 May 2002, Anna Raff, 'Sukhanov Elected Slavneft President', *Moscow Times*, 14 May 2002; and Torrey Clark, 'Police Probe Slavneft Execs', *Moscow Times*, 13 May 2002.
57. The principal-agent framework has been used to analyse relations between the legislature and bureaucracy. See, for instance, Matthew McCubbins, Roger G. Noll and Barry R. Weingast, 'Structure and Process, Politics and Policy: Administrative Arrangements and the Political Control of Agencies', *Virginia Law Review* 75 (1989): 431–483. For an analysis of the principal-agent problem in general and its solution, see Kenneth A. Shepsle and Mark S. Bonchek, *Analysing Politics: Rationality, Behaviour and Institutions* (New York: W W Norton & Company, 1997), pp. 360–279; and Jean-Jacques Laffont and David Martimort, *The Theory of Incentives: The Principal-Agent Model* (Princeton: Princeton University Press, 2002).
 58. As cited by Ekaterina Drankina, 'Zakat Gutserieva', *Ekspert*, 15 April 2002; and 'Sibneft/TNK Bury the Hatchet over Slavneft', *FSU Energy*, 10 November 2000. Gutseriev, however, denied any inappropriate relationship between BIN bank and Slavneft'. See, for instance, Maksim Rybchenko, 'My nikogda ne byli ch'im-to opornym bankom', *Ekspert*, 22 April 2002.
 59. For allegations, see Drankina, 'Zakat Gutserieva'; and 'Slavneft and Megionneftegaz: Privatisation Implications', (Moscow: Renaissance Capital, 22 October 2002), pp. 12–13.
 60. The settlement between Gutseriev and Sibneft'–TNK over Varyeganneft' is described in Ol'ga Shevel, 'Chelovek masshtaba', *Sekret firmy*, 21 November 2005 (available at <http://www.sf-online.ru>); 'Morning Monitor', (Moscow: Renaissance Capital, 14 November 2002); *Russian Market Daily* (Moscow: CentreInvest Group, 14 November 2002); 'Whole Hog: Gutseriev Pursues Vertical Integration', *Nefte Compass*, 9 December 2002; and 'Majors Line Up for Slavneft Sale of the Year', *Nefte Compass*, 20 November 2002.
 61. Gutseriev was forced to sell Russneft' to an intermediary supposedly acting on behalf of unnamed state officials and is a tax fugitive from the Russian authorities. For background on the rise and fall of Russneft', see Greg Walters, 'A New Oil Major From Nowhere', *Moscow Times*, 3 August 2005; 'Russneft's Arrival', *EIU Viewswire*, 10 February 2006; Yevlaliya Samedova and Irina Reznik, 'Rossiya pomenyala neftyanykh igrokov v slovakii', *Nezavisimaya gazeta*, 8 February 2006; 'Kremlin Turns Guns on Independent Oil Producer', *Nefte Compass*, 1 February 2007; Yuliya Latynina, 'A teper' "Russneft"'?', *Novaya gazeta*, 17 May 2007; and Natal'ya Grib, Alek Akhundov, Denis Rebrov and Ol'ga Pleshanova, 'Mikhailu Gutserievu naznachili vykhodnoe posobie', *Kommersant'-Daily*, 30 July 2007.
 62. As cited by Sapozhnikov, "'Slavneft"' mozhet vernut' TNK gosudarstvu'.
 63. As cited by Oleg Chernitskiy, 'Privatizatsii: "Slavneft"' ne budet', *Vremya Novostey*, 21 December 2000.
 64. The Gutseriev–Rushailo relationship was also reflected in the hostage situation in Chechnya. Using his high standing in the North Caucasus, Gutseriev would negotiate for the freedom of some hostages and turn them over to Rushailo, who then took credit for his Ministry's effectiveness in freeing hostages in Chechnya. From author's interview with Mr Andrey Shtorkh; and Shevel, 'Chelovek masshtaba'.

65. Julia Latynina, 'Perilous Incompetence in Ingushetia', *Moscow Times*, 10 April 2002. Apart from federal subsidies, the Russian government also paid out large sums for the release of Russians taken hostage by the Chechens. Most of the mediation was done by the Interior Ministry and the Gutseriev clan, leading to speculation that some of the money may have been diverted. Gutseriev's role in release of hostages was described by one of his former colleagues, as noted in author's interview with Mr Andrey Shtorkh.
66. For an account of the origins and activities of the BIN group in Ingushetia, see Mark Whitehouse, 'From War Zone to Tax Haven', *Moscow Times*, 4 March 1997.
67. See Romanova, 'Mikhail Gutseriev: Prezident "Slavnefti" – dolzhnost' skoree politicheskaya'. In the same interview, Gutseriev denied that his position at Slavneft' was the result of 'political trading between Ruslan Aushev and Vladimir Putin'.
68. Quote by Danil Khachaturov, a former spokesman for Gutseriev at Slavneft', as cited by Yuliya Bushueva and Elena Berezanskaya, 'Mezhpromslavneft', *Vedomosti*, 17 April 2002.
69. From 'Brat otvetil za brata', *Kommersant'-Daily*, 22 April 2002; and from author's interview with Mr Andrey Shtorkh. According to the latter, Abramovich repeatedly warned Gutseriev not to get involved in the Ingush elections as it could cost him his position at Slavneft'.
70. See Vladimir Yanchenkov, 'Dlya izbraniya prezidenta Ingushetii trebuetsya vtoroy tur', *Trud*, 9 April 2002. Slavneft' denied allegations that the company had financed Khamzat Gutseriev's campaign. See 'Russian Oil Company Denies Involvement in Ingush Election Campaign', *BBC Monitoring: Former Soviet Union*, 5 April 2002.
71. See Liz Fuller, 'Ingushetia's President Bows Out', *Radio Free Europe/Radio Liberty Caucasus Report*, 3 January 2002.
72. From Peter Rutland, 'Putin's Path to Power', *Post-Soviet Affairs* 16, no. 4 (2000), p. 334.
73. For an in-depth analysis of Putin's early reforms, see Archie Brown, 'Vladimir Putin and the Reaffirmation of Central State Power', *Post-Soviet Affairs* 17, no. 1 (2001): 45–55; and Gordon M. Hahn, 'The Impact of Putin's Federative Reforms on Democratisation in Russia', *Post-Soviet Affairs* 19, no. 2 (2003): 114–153.
74. Julia Latynina, 'Make an Honest Woman of Slavneft', *Moscow Times*, 11 December 2002.
75. 'TNK and Sibneft Join Forces to Defend Slavneft', *FSU Energy*, 26 April 2002.
76. The corporate battle at Slavneft' received a lot of coverage in the Russian newspapers. A useful summary with suggestions for further reading may be found in 'Slavneft Headquarters Reopens amid Questions about Russian President's Leadership', *Radio Free Europe/Radio Liberty Business Watch*, 9 July 2002.
77. This writ was later annulled by a ruling from a court in Volgograd which upheld the legality of the said meeting.
78. A profile of Pugachev and his alleged links to Putin and the *siloviki* may be found in Il'ya Bulavinov, 'Politicheskii rasklad: koloda Rossiyskoy Federatsii', *Kommersant'-Vlast'*, 1 December 2003. Pugachev subsequently attempted to sue an analyst for making such allegations, as reported in Vitaliy Ivanov, 'Pugachev trebuet \$1mln', *Vedomosti*, 10 October 2003.

79. See, for instance, 'Sergey Bogdanchikov: Turning Rosneft around', *Radio Free Europe/Radio Liberty Business Watch*, 9 July 2002; and Clark, 'Police Probe Slavneft Execs'. A Slavneft' insider, however, expressed reservations about whether Bogdanchikov had actually sanctioned Baranovskiy's actions at Slavneft', despite the fact that Baranovskiy was also the vice-president at Rosneft' (from author's interview with Mr Andrey Shtorkh).
80. Aleksey Makarkin and Sergey Savushkin, 'Rol' lichhosti v istorii neftyanoy goskompanii', *Neft' i Kapital*, no. 10, 2002.
81. For details, see Yuliya Bushueva and Aleksandr Tutushkin, 'Vse-taki partnery', *Vedomosti*, 15 October 2002; and Isabel Gorst, 'Sibneft and Tyumen Oil Reach Swap Agreement', *Platt's Oilgram News*, 16 October 2002.
82. Andrei Litvinov, 'Abramovich to Add Slavneft to his Empire', *Gazeta.ru*, 11 October 2002 (printed in *Johnson's Russia's List* no. 6488).
83. See Yakov Pappe, *Oligarkhi: Ekonomicheskaya Khronika 1992–2000* (Moscow: Gosudarstvennyy universitet vysshaya shkola ekonomiki, 2000), p. 227; and Nikolay Petrov, 'Gruppa "Al'fa" zakhvatyvaet Dumu', *Novaya gazeta*, 21 February 2000.
84. From author's interview with Mr Sergey Molozhaviy.
85. Irina Reznik, Yuliya Bushueva and Yelizaveta Osetinskaya, "'Slavneft'" odnim lotom', *Vedomosti*, 9 October 2002. The 'two presidents' in the quotation refer to Gutseriev and Sukhanov, each of whom were struggling to become the head of Slavneft' in mid-2002.
86. See, for instance, Boyko, Shleifer and Vishny, *Privatising Russia*; Kokh, *The Selling of the Soviet Empire*; and Andrei Shleifer and Robert W. Vishny, 'Politicians and Firms', *The Quarterly Journal of Economics* 109, no. 4 (1994): 995–1025.
87. There appears to be a consensus in the empirical literature that as a general rule, privately owned firms consistently outperform state-owned enterprises, and that among privately owned firms, differences in ownership types account for the varying degrees of success. See, for instance, William L. Megginson, Robert C. Nash and Matthias von Randenborgh, 'The Financial and Operating Performance of Newly Privatised Firms: An International Empirical Analysis', *Journal of Finance* XLIX (1994): 403–452; Roman Frydman, Cheryl Gray, Marek Hessel and Andrzej Rapaczynski, 'When Does Privatisation Work? The Impact of Private Ownership on Corporate Performance in the Transition Economies' (Stockholm: Stockholm School of Economics, SITE Working Paper no. 142, January 1999); and Simeon Djankov and Peter Murrell, *The Determinants of Enterprise Restructuring in Transition: An Assessment of the Evidence* (Washington DC: World Bank, September 2000). For a dissenting view on the subject, see Alec Nove, *Efficiency Criteria for Nationalised Industries* (London: George Allen & Unwin, 1973). He has argued that nationalized industries such as the railways or electricity should not be judged on commercial criteria, but instead on the intangible benefits they provide to the wider public.
88. Reznik et al., "'Slavneft'" odnim lotom'. Similar sentiments were echoed by Litvinov, 'Abramovich to Add Slavneft to his Oil Empire'; 'Slavneft Sale: Implications and Interpretations', *Radio Free Europe/Radio Liberty Business Watch*, 22 October 2002; and 'Oil Test for Putin's regime', *Euromoney*, December 2002.

89. See 'Slavneft Sale a Safe Bet against Oil Instability', *Moscow Times*, 14 October 2002.
90. Author's interview with Mr Sergey Molozhaviy.
91. Sergey Fedoktin, 'Vse na vybory!', *Rossiyskie vesti*, 16 October 2002.
92. Ibid.
93. Mariya Ignatova, 'Roman s neft'yu: 'Slavyanskaya' neft' stala sibirskoy', *Izvestiya*, 19 December 2002.
94. See Simon, 'Organisation and Markets'.

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1. Tchurilov, *Lifeblood of Empire*, p. 215.
2. 'Blueprint for Reform: New Policies and Structures for the Russian Oil Industry', (New York: Petroleum Intelligence Weekly, 1992), p. 73. The consultants did issue a disclaimer that the information upon which this report was based was not independently verified and was provided solely by Rosneftegaz.
3. This negative image was rather undeserved since Rosneftegaz proved to be a strong advocate of significant changes to the oil industry, including an increase in the price of oil, the formation of VIOCs and the need for foreign investment. See 'Soviet Flow Skids to Less than 10 Million b/d', *Oil & Gas Journal*, 30 December 1991; and Leyla Boulton, 'Oil Industry Chief Warns of Need for Big Price Increase', *Financial Times (London)*, 17 August 1991.
4. John Lloyd, 'Russian Oil Shake-Up Raises Foreign Hopes', *Financial Times (London)*, 19 February 1993. Churilov, however, denied Lloyd's claim that there was a high level of tension between Mintopenergo and Rosneftegaz (from author's interview with Mr Lev Churilov).
5. Between 1987 and 1990, Shafranik was general manager of the oil producer, Langepas, while Putilov was his counterpart at Uray.
6. Stepan Avdeev, 'Preobrazovanie neftyanogo kompleksa: Neft' vzyata pod goskontrol' novym sposobom', *Kommersant'*, 14 November 1992; and 'Srednee zveno: gosudarstvennoe predpriyatnie "Rosneft"', *Ekonomika i zhizn'*, no. 35, August 1993.
7. The quote by Putilov is from 'Rosneft Head Sees New Plan Soon to Reorganise Russian Oil Companies', *Platt's Oilgram News*, 2 June 1994. Putilov also submitted a blueprint for Rosneft' to retain seven oil producers and four refineries, as described in 'Reforms Divide Russian Oil Giants', *Lloyd's List*, 23 December 1994.
8. See the account by Leonid Berres, 'Konflikt Goskomimushchestva s "Rosneft'yu": aktsionery "Purneftegaza" ne soglasilis' s pravitel'stvom', *Kommersant'*, 27 July 1994.
9. See, for example, 'Russian National Oil Company Plans Criticised by Sidanko', *Financial Times Energy Newsletters: East European Energy Report*, 27 January 1995; and Aleksei Sukhodoev, 'Funktsii rossiyskoy natsional'noy neftyanoy kompanii', *Kommersant'*, 4 August 1994.
10. As quoted in 'Reforms Divide Russian Oil Giants'.
11. Quote by Dmitriy Romanov as cited by Mikhail Dubik, 'Officials Predict an End to Soviet-Era Rosneft', *Moscow Times*, 7 June 1994. A report commissioned jointly by the World Bank and Mintopenergo held similar views.

- See Robert Corzine, 'State Oil Company "Wrong" for Russia', *Financial Times* (London), 1 March 1995. For reactions by leading Russian officials and businessmen, see Andrey Konoplyanik, *Rossiya na formiruyushchemsya evroaziatskom energeticheskom prostranstve: problemy konkurentosposobnosti* (Moscow: Nestor, 2004), pp. 454–464.
12. The plan was not formally approved.
 13. Putilov was, in fact, so confident that Chernomyrdin would keep his word regarding the structure of Rosneft' that he left Russia soon after for his summer vacation in France, as recounted in author's interview with Dr Rair Simonyan (Moscow).
 14. According to presidential decree 1403 of November 1992, the stakes owned by foreigners in an oil company were limited to 15% of its authorized capital. The removal of this limit was aimed at attracting foreign interest and was not retroactive, that is, it was only applicable to privatizations that were to be announced henceforth. See Natal'ya Samoylova and Aleksandr Malyutin, 'Kremli' gotov prodavat' "Rosneft" inostrantsam', *Kommersant'-Daily*, 4 November 1997; and Natal'ya Samoylova, 'Prezident razreshil inostrantsam pokupat' neftyanye kompanii', *Kommersant'-Daily*, 6 November 1997.
 15. Aleksandr Budberg, 'BAB prokhorodit kak khozyain . . .' *Moskovskiy komsomolets*, 28 November 1997.
 16. As cited by Iain Esau, 'Shell Pulls Out of Rosneft Bid Consortium', *Lloyd's List*, 4 July 1998. A similar reason was given by British Petroleum/ONEKSIMbank. See Jeanne Whalen, 'Unexim Drops Out of Rosneft Auction', *Moscow Times*, 7 July 1998.
 17. Author's interview with Dr Rair Simonyan (Moscow).
 18. Ibid. Berezovskiy has also used the strategy of 'privatising management' to his control over other companies, such as Aeroflot, ORT and the constituents of Sibneft'.
 19. Leonid Proshin, 'Aleksandru Putilovu nashli mesto v "Rosnefti"', *Kommersant'-Daily*, 7 May 1997. As part of the campaign to reinstate Putilov, Simonyan and his colleagues also publicized the matter in the press and had meetings with Nemtsov.
 20. Pre-tax profits for the first three quarters of 1997 had declined by 19.4% over the same period in 1996, while refining volumes had fallen by 11% despite a rise in oil-production levels. Putilov claimed that these figures indicated that under Bespalov, some of the crude produced by Rosneft' was being sold at a low price to Omsk refinery (owned by Berezovskiy's Sibneft'), which was charging high prices to refine the oil. See 'Rosneft Privatization Heads for Final Round', *Financial Times Energy Newsletters: East European Energy Report*, 1 December 1997; and Gary Peach, 'Raid of the Rosneft Cookie Jar May Just Leave Crumbs', *Moscow Times*, 12 May 1998.
 21. For details, see Natal'ya Gotova, 'Killer Berezovskiy metit v Nemtsova', *Moskovskiy komsomolets*, 29 November 1997.
 22. For more information, see Budberg, 'BAB prokhorodit kak khozyain . . .'; and Yuliya Panfilova, 'Delezh "Rosnefti" nachalsya iznutri', *Kommersant'-Daily*, 24 October 1997.
 23. See 'Registrar "Rosnefti": ni nashim, ni vashim', *Kommersant'-Daily*, 6 December 1997; and Yuliya Panfilova, 'Reestr aktsionerov "Rosnefti" budet vesti kompaniya Borisa Berezovskogo', *Kommersant'-Daily*, 15 October 1997.

- A registrar is required by law to maintain information on the distribution of a company's shareholdings. In Russia, registrars affiliated to a company's management sometimes fail to record share purchases by 'hostile' investors or they allow shares to be transferred to shell companies owned by management. See Frederico Varese, *The Russian Mafia: Private Protection in a New Market Economy* (Oxford: Oxford University Press, 2001), pp. 32–33.
24. Bepalov's relationship with Berezovskiy is also mentioned by Andrey Belyaev, 'Viktoru Chernomyrdinu razvyazali ruki', *Kommersant'-Daily*, 27 November 1997; Jane Upperton, 'Management Face-Off Nears at Rosneft', *Platt's Oilgram News*, 25 July 1997; and Gotova, 'Killer Berezovskiy metit v Nemtsova'. Berezovskiy was engaged in advanced negotiations with Gazprom at this time and had named Gazprom's president, Rem Vyakhirev, as chairman of Sibneft' in an attempt to seal the alliance. However, Gazprom abruptly rejected Berezovskiy in favour of LUKoil and Royal Dutch/Shell.
 25. At that time, the government claimed that the compromise was in line with new corporate guidelines that came into effect in June 1996 that prohibited the posts of chairman and president from being held by the same person simultaneously. This is, however, a weak justification since candidates other than the protagonists could have been considered for the posts.
 26. See Tat'yana Koshkareva and Rustam Narzikulov, 'V preddverii auktsiona po "Rosnefti"', *Nezavisimaya gazeta*, 21 February 1998. Aleksandr Kazakov was chairman of Gazprom from mid-1996 to 1998. He was previously the head of GKI and deputy head of Yel'tsin's presidential administration.
 27. Author's interview with Mr Dmitriy Romanov.
 28. Tat'yana Koshkareva and Rustam Narzikulov, 'Liberaly delyat neftyanuyu sobstvennost'', *Nezavisimaya gazeta*, 10 December 1998. A similar conclusion was reached by Celestine Bohlen, 'Energy Companies are Tools in Russian Power Struggle', *The New York Times*, 11 October 1999.
 29. Vyacheslav Nikonov, 'Vtoraya liberal'naya revolyutsiya', *Nezavisimaya gazeta*, 10 April 1997.
 30. 'New Energy Minister Blasts Delay in Rosneft Privatisation', *BBC Summary of World Broadcasts*, 5 December 1997.
 31. Natal'ya Gotova, 'Semerykh odnim udarom', *Moskovskiy komsomolets*, 23 December 1997. Omsk was, in fact, the only refinery belonging to Sibneft'. Chubays, who was head of the Emergency Committee for Taxes and Budget, also ordered the arrest and disposal of assets belonging to SIDANKO's refinery for back taxes amounting to 766 billion rubles. Given that the owner of SIDANKO, Vladimir Potanin, was closely allied with Chubays, this was interpreted as the latter's attempt to appear to be even-handed in his relationship with the tycoons, particularly, since there was idle refining capacity at SIDANKO. In the end, both refineries paid off their debts without any forced liquidation of assets.
 32. Quote by Aleksandr Bekker, 'Who Will Take on the Redhead?', *Moskovskiy novosti*, 21 December 1997 (compiled in *Current Digest of the Post-Soviet Press*, XLIX, no. 51, 1997, pp. 6–7).
 33. Chrystia Freeland, 'New Hitch in Rosneft Sale', *Financial Times (London)*, 30 January 1998. Likewise, Kiriyenko explained that the 75%-plus-one proposal was forwarded in December 1997 because it was strategic investors with a long-term interest that were most interested in bidding for a stake in Rosneft',

- rather than portfolio investors who have shorter time horizons and expect a quick return. See 'Rosneft Privatisation Heads for Final Round'. Earlier privatization plans had called for the sale of smaller stakes, as reported in 'Utverzhden plan privatisatsii "Rosnefti"'; and Maksim Kashulinskiy, 'Bor'ba za "Rosneft" obeshchaet byt' zharkoy', *Segodnya*, 30 July 1997.
34. The sentiment that Rosneft' was overvalued was shared by potential bidders, the board of directors of Rosneft' and independent analysts. For a selection of reactions to the asking price, see 'Rosneft Terms to Remain despite Price Complaints', *Financial Times Energy Newsletters: East European Energy Report*, 1 April 1998.
 35. As reported by Sujata Rao, 'Rosneft May be Split into Small Stakes', *Moscow Times*, 24 April 1998.
 36. As if to confirm Yel'tsin's perceptions about Chernomyrdin, a Russian newspaper wrote that Chernomyrdin's foreign visits and weekly television address at the start of 1998 gave the impression that he was 'more than simply a prime minister', and that the ailing president himself was 'almost unnecessary'. See Elena Dikun and Anatoliy Kostyukov, 'Upotreblenie vlasti', *Obshchaya gazeta*, 9 July 1998.
 37. As quoted in 'Kiryenko Links Shell Putt-Out from Oil tender with Row over Gazprom Tax', *BBC Summary of World Broadcasts*, 7 July 1998. A similar linkage is also suggested by 'Russia: Shelling Out', *Economist Intelligence Unit: Crossborder Monitor*, 15 July 1998.
 38. Vyacheslav Nikonov, 'Pravitel'stvo – "Gazprom" 1:1', *Izvestiya*, 7 July 1998.
 39. In game theoretic terms, 'private information' refers to a situation of information asymmetry, whereby privileged information accrues only to a particular actor usually as a result of his particular position, for instance, as a company manager or as a member of government. In this respect, other actors are said to possess incomplete information.
 40. On 13 July 1998, the IMF approved US\$17.1 billion in new loans to Russia, of which US\$4.8 billion was disbursed at the end of July.
 41. These figures are from *Russian Economy in 1998*; and Freeland, *Sale of the Century*, p. 241.
 42. Prior to 1997, debt servicing took up 25% of each ruble borrowed. In 1997, this figure rose to 85%, and in 1998 all new borrowings were used to repay old debts. See Thierry Malleret, Natalia Orlova and Vladimir Romanov, 'What Loaded and Triggered the Russian Crisis?', *Post-Soviet Affairs* 15, no. 2 (1999), p. 111. For other analysis of the crisis in Russia, see *Russian Economy in 1998*; and Clifford Gady and Barry Ickes, 'Russia's Virtual Economy', *Foreign Affairs* 77, no. 5 (1998): 53–67.
 43. Prices are for Urals oil as cited in *Energy Prices & Taxes: 1st Quarter 1998* (Paris: International Energy Agency, 1998), p. 32; and *Energy Prices & Taxes: 3rd Quarter 1998* (Paris: International Energy Agency, 1999), p. 4.
 44. This is again reflective of the tendency, mentioned earlier in the book, of blaming big business for the shortcomings in economic policy, especially of privatization. See, for instance, Nina Pusenkova, "'Rosneft'" kak zerkalo russkoy evolyutsii', *Pro et Contra* 10, no. 2–3 (2006): 91–103.
 45. Candidates for the post of president of Rosneft' included former Mintopenergo heads Yuriy Shafranik and Sergey Chizov as well as former GKI heads Chubays and Kazakov.

46. From an interview with Bogdanchikov by Evgeniy Bogin, 'Sergey Bogdanchikov: "O planakh privatizatsii 'Rosnefti' nado na nekotoroie vremya zabyt"', *Profil*, 26 October 1998.
47. See interview by Magiy Ignatovoy, 'Sergey Bogdanchikov, prezident gosudarstvennoy neftyanoy kompanii "Rosnefti": ne nraivitsya mne etot shum v otrasli', *Izvestiya*, 8 September 2003.
48. For a background of the struggle to maintain control over these subsidiaries, see Nikolay Poluektov and Andrey Bagrov, 'Operatsiya "Purneftegaz"', *Kommersant'-Daily*, 7 October 1998; 'Rosneft Regains Purneftegaz but Remains Short of Funds', *Financial Times Energy Newsletters: East European Energy Report*, 1 October 1998; Gary Peach, 'The Death of Rosneft', *Moscow Times*, 1 December 1998; 'Dyrka ot skvazhiny', *Novaya gazeta*, 16 December 2002; 'Sovladel'tsy pustoty', *Novaya gazeta*, 12 May 2003; 'Neftyanaya vertikal' kompaniya "Rosnefti" "smogla vernut" gosudarstvu uvedennye aktivy', *Novaya gazeta*, 29 April 2004; and Mikhail Yenukov, 'Kusochki "Rosnefti"', *Vedomosti*, 13 August 2000.
49. Aleksey Makarkin and Sergey Savushkin, 'Rol' lichnosti v istorii neftyanoy goskompanii', *Neft' i Kapital*, no. 10, 2002.
50. Shevtsova, 'Prezident Putin oformlyaet sobstvennyy politicheskiy rezhim'.
51. Rosneft' has faced many problems in operating in Chechnya, particularly during the tenure of the region's plenipotentiary of the federal government at that time, Nikolay Koshman, who refused to cede control over the oil industry in view of his vested interests in illegal oil sales. See, for example, Milana Davydova and Yuliya Ul'yanova, 'Koshman oyl', *Segodnya*, 20 June 2000. Since 1991, rival Chechen clans have been fighting to control the republic's oil resources, and they have found support among segments of the Russian military there. For a brief review, see 'Chechen Oil Provoked War', *Moscow News*, 4 July 2001.
52. The figures are from a variety of sources, including *Energy Policies of the Russian Federation*, p. 50; and *Russia Energy Survey 2002*, p. 144. The merger would also liberalize trading in Gazprom's shares by raising the current limit on foreign ownership, thereby significantly increasing the value of the state's own stake in Gazprom.
53. Quote from an independent consultancy firm as cited by Guzel Fazullina, 'State Officials Are Going into Business', *Rodnaya gazeta*, 12 November 2004 (printed in *Johnson's Russia's List* no. 8449).
54. 'Gazprom-Rosneft Merger Runs into Personal Rivalries', (Moscow: Rye, Man & Gor Securities, 4 October 2004). For a profile of the different members of each 'faction' and their political outlook, see the literature cited in Chapter 4. Some analysts, however, have questioned the extent of actual policy differences between the two 'factions'. See Greg Walters, 'Study: Siloviki's Struggle for Assets Not Over', *Moscow Times*, 27 June 2005. The posts cited in the text were those prior to May 2008. Since then, Dmitriy Medvedev has become the President of Russia.
55. There is some evidence that Miller and Medvedev have pursued personal advantages. For example, in 2003, Gazprom lost US\$2.1 billion in profits due to questionable practices and expenditure, including almost US\$800 million from contracting out gas-supply operations on highly favourable terms to a company suspected of having close links to Gazprom's top management.

- Under the previous management of Gazprom, led by Rem Vyakhirev, the company lost about US\$3 billion annually and was similarly accused of contracting out gas-supply operations to a company with known links to Gazprom. This company Itera has since ceased to exist, but many analysts think that its place and role has simply been replaced by Eural Trans Gas under Medvedev and Miller. See Irina Reznik, 'Gazprom poteryal \$2.1 mlrd', *Vedomosti*, 9 June 2004; Catherine Belton, 'Gazprom Leaking Billions, Report Says', *Moscow Times*, 8 June 2004; William F. Browder, 'Gazprom and Itera: A Case Study in Russian Corporate Misgovernance', 18 March 2002 (printed in *Johnson's Russia's List* no. 6149); and Jason Bush, 'Murky Deals at Gazprom', *Business Week*, 21 June 2004.
56. See Yuliya Bushueva and Yekaterina Derbilova, "'Rosneft'" podorozhala', *Vedomosti*, 16 December 2004. Gazprom hired Dresdner Kleinwort Wasserstein while Rosneft' turned to Morgan Stanley. The head of Dr KW's Russia office Mr Matthias Warnig was recently nominated to Gazprom's board of directors and has known Putin since the latter's KGB stint in Germany. See Guy Chazan and David Crawford, 'In From the Cold', *Wall Street Journal*, 23 February 2005.
 57. The injunction was overturned in February 2005, but it came too late for Gazprom and its subsidiaries to participate in the auction for Yuganskneftegaz.
 58. Quote cited by Petr Sapozhnikov, 'My prodolzhaem konstruktivnoe sotrudnichestvo s YUKOSom', *Kommersant'-Daily*, 7 February 2005. Nevertheless Gazprom's Miller continued to insist that the state would obtain a controlling stake in Gazprom in exchange for 100% of Rosneft' minus Yuganskneftegaz, which he opined would become a separate state-owned entity. See Nikolay Gorelov, 'Slivalis' dva tovarishcha', *Vremya novostey*, 3 March 2005.
 59. See, for example, '... as former Finance Minister speculates on State's plans for Yukos', *Radio Free Europe/Radio Liberty Newslines*, 23 July 2004; Andrew Osborn, 'Kremlin Ally Bogdanov Emerges as Buyer of key Yukos subsidiary', *The Independent (London)*, 22 December 2004.
 60. Mikhail Gorbachev, the last president of the Soviet Union, endorsed Putin's decision to launch an IPO for Rosneft' because it gave 'many more ordinary Russians the opportunity to have a direct stake in the future success of the Russian economy'. As cited by Joanna Chung and Arkady Ostrovsky, 'Rosneft IPO Fails to Attract Big Players', *Financial Times*, 15 July 2006.
 61. For details of the scheme, see Ekaterina Derbilova, Irina Reznik and Andrey Panov, 'Milliard dlya "Gazproma"', *Vedomosti*, 18 May 2005.
 62. Quote by Vladimir Milov, an oil analyst and former deputy minister, in Catherine Belton, 'An IPO Built on Greed and Ambition', *Moscow Times*, 7 July 2006.
 63. From an unnamed banker as cited in *ibid*.
 64. See 'BP, Petronas, CNPC take up Stakes in Rosneft IPO', *Platts Energy Economist*, 1 August 2006. China National Petroleum Company expressed an interest to purchase up to US\$3 billion of shares at the IPO or around 4.5% of Rosneft', but were only allocated US\$500 million or around 0.7% of Rosneft'.
 65. The American investment banker George Soros and executives of YUKOS were among those who campaigned against participation in the Rosneft' IPO. See Neil Buckley, 'Soros says Rosneft IPO Raises Concerns', *Financial*

- Times*, 26 April 2006; and Alexander Temerko, 'Can We Trust Rosneft's Current Owner, the Russian State?', *Wall Street Journal Europe*, 24 May 2006.
66. See 'Glava "Rosnefti" poka na meste', *Kommersant'-Daily*, 18 September 1999; Petr Sapozhnikov, 'Nachalo "Gosnefti": "Slavneft" pomenyala prezidenta', *Kommersant'-Daily*, 15 January 2000; and Nikolay Ivanov, "'Ili rabotat' . . .'" *Segodnya*, 20 October 1999.
 67. Based on production figures for 2005.
 68. Abramovich purchased US\$300 million worth of shares, according to Ekaterina Derbilova and Mariya Rozhkova, 'Tri Kita "Rosnefti"', *Vedomosti*, 24 July 2006.
 69. This sentiment was expressed by BP, which paid US\$1 billion for a 1.4% stake in Rosneft'. With regard to the price per share for Rosneft', a fund manager noted that 'you have to be a real idiot to buy something trading on a premium to LUKoil on a price-per-earnings basis'. From Catherine Belton, 'Half of Rosneft IPO Goes to 4 Buyers', *Moscow Times*, 17 July 2006.
 70. See 'President Delays Sale of Rosneft Stake', *Moscow Times*, 6 September 2000; and Irina Reznik, 'Inostrantsy boyatsya razdela informatsii vmesto razdela produktsii', *Kommersant'-Daily*, 3 September 2001. Production-sharing projects with the involvement of Rosneft' are cited in 'Downer: Rosneft Gets Reduced PSA Role', *Nefte Compass*, 10 April 2002. However, only a handful of PSA projects are actually operational at this point in time. See also 'Putin Pushes Rosneft into the Limelight', *Petroleum Intelligence Weekly*, 27 June 2002.
 71. The criticism is by former presidential economic adviser Andrey Illarionov, as cited in Catherine Belton, 'Illarionov Slams Rosneft IPO', *Moscow Times*, 5 July 2006.
 72. See Aleksandr Tutushkin, Ekaterina Derbilova and Vera Surzhenko, 'Eshche posluzhit', *Vedomosti*, 24 July 2006.
 73. The appointment of Sechin as chairman of Rosneft' was contrary to the hitherto practice of naming a senior state bureaucrat to that position: the former chairpersons of Rosneft' included German Gref (Minister of Economy) and Igor' Yusufov (former head of Mintopenergo). Sergey Oganesyanyan, as head of the Federal Energy Agency and a former vice-president of Rosneft', was widely expected to be named the new chairman in July 2004. See Dmitriy Butrin, Petr Sapozhnikov and Mariya Molina, 'Neftyany kardinal', *Kommersant'-Daily*, 28 July 2004. For a list of officials from the presidential administration serving on the boards of state-owned companies, see Fazullina, 'State Officials Are Going into Business'.
 74. As argued by Nodari Simonia, 'Russia at the Turning Point', 17 September 2004 (printed in *Johnson's Russia's List* no.8372).
 75. The fact that Bogdanchikov's son was appointed in February 2006 as the Head of Investor Relations at Rosneft' prior to the IPO, and that the son of a leading *siloviki*, Nikolay Patrushev (director of the Federal Security Service) was given a post in September 2006 as advisor to the chairman of Rosneft', appears to lend credence to the view that Rosneft' is the domain of the *siloviki* whereas Gazprom is controlled by the 'petersburgers'. See Yelena Kiseleva, Dmitriy Butrin and Mikhail Fishman, "'Rosneft'" vo vtorem pokolenii', *Kommersant'-Daily*, 13 September 2006.
 76. Denis Skorobogat'ko, Dmitriy Butrin, Irina Rybal'chenko and Elena Kiseleva, 'Gosudarstvo raskololos' na neft' i gaz', *Kommersant'-Daily*, 2 February 2005.

77. From Aleksey Grivach, 'Obyknoenny lobbyizm: partiya "Rosnefti" igraet na publiku', *Vremya novostey*, 2 February 2005.
78. See 'Yuganskneftegaz ne otdadut "Gazpromu"', *Vedomosti*, 17 March 2005.
79. Mikhail Khodorkovskiy, 'Tyur'ma i mir: sobstvennost' i svoboda', *Vedomosti*, 28 December 2004.

6 Conclusion

1. The exceptions are LUKoil and Surgutneftegaz, where the Soviet-era general managers have control and ownership of these companies.
2. Timothy Frye, 'Capture or Exchange? Business Lobbying in Russia', *Europe-Asia Studies* 54, no. 7 (2002), p. 1031.
3. S. P. Peregudov, 'Krupnaya rossiyskaya korporatsiya v sisteme vlasti', *Polis*, no. 3 (2001), p. 18.
4. Gaidar, *State & Evolution*, p. 90. In contrast, post-1989 East Central Europe introduced lustration laws against the *nomenklatura*. Hence, changes in Russia may be regarded as anti-Soviet (that is, aimed at dissolving the Soviet Union itself) rather than anti-communist in nature. See Hilary Appel, 'The Ideological Determinants of Liberal Economic Reform: The Case of Privatisation,' *World Politics* 52, no. 4 (2000): 520–549.
5. Since 1999, Fridman's Al'fa group has expanded into the telecommunications and supermarket sectors, while Potanin has bought out his partner and now owns 55% of Norilsk Nickel, one of the world's largest nickel producer. For more information, see Fortescue, *Oil Barons and Metal Magnates*.
6. John W. Kingdon, *Agendas, Alternatives, and Public Policies* (New York: Longman, 1995), p. 165.
7. Churilov, the Soviet Oil Minister, claimed that reforms to create a few VIOCs were 'looming in the air' whereas a former deputy minister of Mintopenergo argued that a single, national VIOC modelled on Gazprom was a more likely outcome in the late 1980s and early 1990s. From author's interviews with Mr Lev Churilov and Mr Andrey Konoplyanik, respectively.
8. Author's interview with Mr Viktor Chernomyrdin.
9. Frank R. Baumgartner and Bryan D. Jones, 'Agenda Dynamics and Policy Subsystems', *The Journal of Politics* 53, no. 4 (1991), p. 1047.
10. Anders Aslund, 'The Russian President's Second Term Disaster', *The Weekly Standard*, 17 January 2005.
11. According to the provisions of the TNK–BP deal of 2004, the Russian owners would be free to dispose of their shares only after three years, that is, in 2007. It is widely assumed that these shares will be sold to Gazprom. For Slavneft', which is currently owned in equal parts of 49.48% by TNK and BP, such a scenario would mean that it will no longer be a fully privately owned oil company, but one owned in part by state-owned Gazprom. See Irina Reznik and Tat'yana Yegorova, 'Gazprom-BP', *Vedomosti*, 18 September 2006; and Tat'yana Yegorova and Irina Reznik, "'Gazprom" prisma tri vaetsya k "Slavnefti"', *Vedomosti*, 21 November 2005.
12. Quote by the general manager of Kommersant' group as cited in 'Vasil'ev: "Al'fa-Bank" pytaetsya razorit' "Kommersant", no emu eto ne udastsya', *Lenta.ru*, 20 October 2004. Al'fa won a court order for US\$11.7 million in damages from the Kommersant' group, which is owned by Berezovskiy.

13. From Robert Coalson, 'The Assault on "Kommersant"', *Radio Free Europe/Radio Liberty Media Matters*, 25 October 2004.
14. John Kenneth Galbraith, 'Countervailing Power', *American Economic Review: Papers and Proceedings of the 66th Annual Meeting of the American Economic Association* 44, no. 2 (1954): 1–6.
15. 'Who will the Next Duma Really Serve?', *Moscow Times*, 4 December 2003.
16. Clifford Gaddy and Barry Ickes, *Russia's Virtual Economy* (Washington DC: Brookings Institution Press, 2002), p. 56. Yevgeniy Shvidler, the president of Sibneft', similarly noted that 'every large oil company possesses certain acquaintances, administrative resources and so on, which were acquired by it during the long years of working in the Russian marketplace'. As quoted by Peregudov, 'Krupnaya rossiyskaya korporatsiya v sisteme vlasti', p. 18.
17. See Clifford G. Gaddy, 'Perspectives on the Potential of Russian Oil', *Eurasian Geography and Economics* 45, no. 5 (2004), p. 350, footnote 6.
18. From Peter Rutland, Gail W. Lapidus, Barry Ickes, Carol Saivetz and George W. Breslauer, 'Russia in the Year 2003', *Post-Soviet Affairs* 20, no. 1 (2004), pp. 30–31. Abramovich's decision in recent years to cash-out of his holdings in Russia may also reflect his realization that his stock of relational capital could be depreciating.
19. See Aleksandr Igorev, Sergey Topol', Petr Sapozhnikov and Irina Reznik, 'Prishli za Alekperovym', *Kommersant'-Daily*, 12 July 2000; and Viktoriya Abramenko, Milana Davydova and Georgiy Osipov, 'Sezon okhoty na krupnyy biznes', *Segodnya*, 12 July 2000. The charges were dismissed one month later.
20. In 2005, Gazprom's consultants proposed that Surgutneftegaz, along with Yuganskneftegaz and Rosneft', be acquired as Gazprom's oil subsidiaries. There were also rumours in 2006 that Rosneft' would acquire Surgutneftegaz. See Tat'yana Yegorova, Irina Reznik, Yekaterina Derbilova and Mariya Rozhkova, "'Surgut" ne slivaetsya', *Vedomosti*, 31 January 2006.
21. Likewise, the fact that Tatneft' and Bashneft' are state-owned is less convincing than the objective explanation that their higher levels of drilling are necessitated by the older oil fields in Tartarstan and Bashkortostan, compared to west Siberia. Information on investment levels by company is from Troika Dialog's *Oil Sector Report*, p. 41.
22. The point that the business model, rather than relational capital, guides decision-making is also made by Michael Bradshaw and Andrew R. Bond, 'Crisis Amid Plenty Revisited: Comments on the Problematic Potential of Russian Oil', *Eurasian Geography and Economics* 45, no. 5 (2004): 352–358. The following discussion on the business models of selected Russian oil companies draws heavily from research material by two leading investment banks in Russia, Renaissance Capital and Troika Dialog.
23. From Yuliya Bushueva and Svetlana Novolodskaya, 'Alekperov raskryl karty', *Vedomosti*, 26 July 2002.
24. The data on well productivity is for 2002 to 2004 from *Russia Oil & Gas Yearbook 2003: Piping Growth* (Moscow: Renaissance Capital, July 2003), p. 25; *Russia Oil & Gas Yearbook 2004: Counting Barrels* (Moscow: Renaissance Capital, July 2004), p. 29; and *Russia Oil & Gas Yearbook 2005: Impasse* (Moscow: Renaissance Capital, July 2005), p. 29.

25. As cited by Leslie Dienes, 'Observations on the Problematic Potential of Russian Oil and the Complexities of Siberia', *Eurasian Geography and Economics* 45, no. 5 (2004), p. 323, footnote 11.
26. Interview with Khodorkovskiy as cited by Manfred F. R. Kets de Vries, Stanislav Shekshnia, Konstantin Korotov and Elizabeth Florent-Treacy, *The New Russian Business Leaders* (Cheltenham: Edward Elgar, 2004), p. 162.
27. As noted by *Oil Sector Report*, p. 42. This mentality also lies behind the Soviet/Russian method of calculating reserves. This looks at the absolute volume of reserves as opposed to the method used by Western companies, which emphasize recoverable reserves. See *Russia Energy Survey 2002*, pp. 70–71.
28. Concrete examples include the purchase of NIKoil (by LUKoil) and Severnaya Neft' (by Rosneft'). Also, around 15% of LUKoil is held by foreign shareholders, and in 2000, LUKoil purchased the Getty Petroleum marketing chain in the USA. As for Rosneft', it has the largest number of production-sharing projects with foreign partners.
29. Hall and Taylor, 'Political Science and the Three New Institutionalisms', p. 945.
30. Between 1993 and 1997, implicit subsidies provided by Gazprom amounted to US\$5.5 billion per year on average, or 1.6% of Russia's GDP. Likewise, the electricity company, Unified Energy Systems, provided implicit subsidies of US\$7.4 billion per year on average or 2.3% of GDP. The data are from Bobylev and Cukrowski, 'Russia: Bank Assistance for the Energy Sector', pp. 37–38. Gazprom's integral role in this respect was also noted by Gaddy and Ickes, 'Russia's Virtual Economy'.
31. Quote from Nemtsov from 'First Deputy Premier Nemtsov Admits No-One Knows where Gazprom's Money Goes', *BBC Summary of World Broadcasts*, 15 April 1997.
32. Author's interview with Mr Nick Butler.
33. As noted by Peters, *Institutional Theory in Political Science*, p. 47.
34. The head of Rosugol' was Dr Yuriy Malyshev, who continued in his capacity until the dissolution of the organization in 1997. The other reason why it persisted till December 1997 was that it served the interests of the relevant actors, as mentioned earlier.
35. Andrei Shleifer and Sergey Vasiliev, 'Management Ownership and Russian Privatisation', in *Corporate Governance in Central Europe and Russia: Insiders and the State*, ed. Roman Frydman, Cheryl W. Gray and Andrzej Rapaczynski (Budapest: Central European University Press, 1996), p. 68.
36. Shleifer and Boyko, 'The Politics of Russian Privatisation', p. 55.
37. Putin, 'Russia at the Turn of the Millennium'.

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