AREA REVIEW MEETING ON RUSSIA
Centro studi di politica internazionale (CeSPI)
Ente nazionale idrocarburi (ENI)
Castelgandolfo, 3-4/VII/1995

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AREA REVIEW MEETING

RUSSIA

3-4 LUGLIO 1995

IAFE
Castelgandolfo

3 Luglio (13.00 - 20.30)

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13.00 - 14.30	Colazione c/o Iafe
14.30 - 16.30	Inizio meeting (Aula A - Iafe)
	Neil Malcolm (Professor of Russian Politics - University of Wolverhampton) *"The Political Situation"*
	Renzo Daviddi (Principal Administrator and Russian Desk Officer, DGII-European Commission.) *"TheEconomic Situation and the Role of European Union*
16.30 - 17.00	Coffee Break
17.00 - 18.30	**Piero Sinatti** (Russian and Eastern Europe Specialist - Il Sole 24 Ore) *"Geopolitics of Oil in the post Soviet Era"*
	Dibattito finale
18.30	Proiezione in Sala Cinema del film " Il sole ingannatore "
20.30	Pranzo c/o IAFE

4 Luglio (9.00 - 12.30)

Partecipazione ristretta ai funzionari del Gruppo ENI
Iafe - Castelgandolfo - (Aula A)

Tavola rotonda su:

RUSSIA

9.00 - 10.30	Dibattito su: **- Cosa le Società già fanno nell'area;** **- Cosa intendono fare nel futuro**
10.30 - 11.00	Coffee Break
11.00 - 12.30	**- Quali possibili sinergie di Gruppo** **- Conclusioni operative**

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Briefing for CeSPI - ENI Area Review Meeting on Russia

3 - 4 July 1995

The Current Political Situation in Russia: What Has Changed?

Neil Malcolm

(Russian and East European Research Centre, University of Wolverhampton, UK)

The Current Political Situation in Russia: What Has Changed?

Russia is still attracting myth-makers. First of all we were told that history had come to an end and that Russia was on a fast track to Western-style capitalism and democracy, then that nothing had changed, the that the old bureaucracy was still in charge, and that the old imperialism was on the way back. Reality is as usual more complicated, less exciting, and perhaps less worrying.

This analysis focuses on internal changes in Russia. It is divided into three main sections. The first deals with major issues in the Russian reform process in general from 1989 to 1995. The second examines the political situation in 1995. The third considers the prospects for the forthcoming elections and the more distant future.

1. The fate of the Russian reforms

Legacies of the past: state and society

Seen against the historical background of centuries of despotism, isolation, and economic centralism, Russia appears to have made substantial progress recently. There have been five years of at least semi-democratic government, hostility to the West has been replaced by opening-up of borders, and the basics of a market economy are being put in place. All this reflects a widespread realisation among the elite that the Soviet model is no longer viable and that Russia must join the mainstream of world development.

But the very sharpness of the contrast between past experience and present goals should put us on our guard against easy optimism. In Russia as elsewhere, state and society have formed a single system, and there the state has always dominated, while social institutions have been weak. 175 years ago tsar Nicholas I remarked that there were only two things his subjects understood. The first was "the stick", the second was "more of the stick". Members of a society previously controlled by fear of an all-pervading KGB may be expected to behave differently when the police state is reformed than members of societies where a sense of civic duty and respect for the law has been more important for social order. Thus the deliberate reduction in the scope and powers of the Russian state has given rise to all sorts of disorders, and has left a widespread malaise and fear of chaos.

It is now evident, in other words, that a European-style civil society cannot be built overnight, and that if it is aiming for that destination Russia must pass through an uncomfortable period of what has been described as "anarcho-capitalism".[1] This is a period of liberty without the corresponding responsibility. Crime and corruption are common, social institutions are weak, and the executive of the state itself may frequently resort to arbitrary methods to maintain control. The Russian Prime Minister told the *Financial Times* in March, "For us today the principal shortcoming is not our financial situation but a lack of time. We must await the emergence of a new kind of man."[2]

Indeed there is no guarantee that time will solve the problem. Russia may simply fail, like many other countries, to evolve a mix of controls, values and habits appropriate to a modern industrialized society. In the meanwhile the blundering search goes on for a workable formula.

The desire for a "strong state" is widespread. Yeltsin's dissolution of parliament and the constitutional court in 1993, and his new executive-dominated regime were generally welcomed. The brutal invasion of Chechnya seems to have been accepted. Yet the option of a return to absolute central power is not seen as viable. It is not just out of fear of adverse reactions in the West that the government is preparing to hold parliamentary elections at the end of 1995. The resolve is simply not present, nor is the power available to restore Stalin's iron rule.

The fate of the nomenklatura

The radical reformers who led the Russian government under Yegor Gaidar in early 1992 occupied only a few rooms on the upper floor of a huge administrative structure. Elsewhere officials appointed in the Soviet period controlled matters, and they still do: they are quite simply the only people available with the necessary skills and experience. In Moscow and especially in the regions Communist Party officials shifted into management positions in industry and often, making good use of their networks of contacts, became successful private businessmen. When the political pendulum swung back, they frequently returned to power as chairmen of local and regional authorities.

It would be a mistake to see these individuals as unreconstructed Communist ideologues: in most cases their world view is impressively pragmatic. But their political culture and their habits bear the marks of the past. They are not always held back by scruples about the law, about the freedom of the press or about civil rights. In economic life they may have no objection to privatization and free pricing if that allows them to accumulate wealth for themselves, but their instinct is to control competition and access to the market, by whatever methods are available. As the impetus of reform has run down, this nomenklatura stratum has become increasingly important in Russian politics, at all levels.

Marketizing the economy

Efforts to liberalize and restructure the Russian economy have had disappointing results. When firms have been put under financial pressure they have tended to react defensively, witholding payments to suppliers and putting off paying their workforce (60% were in arrears with salaries at the end of 1994). Bankruptcies have been extremely rare. The much feared explosion of unemployment has failed to happen (6% of the workforce were affected in 1994), instead 35% were on short time working. Thus Russia has had the pain (industrial output down officially by almost 50% since 1990, half the population below the poverty line) but not the hoped-for cure, and the real tests still lie ahead..

There are good arguments for caution and interventionism: the huge Russian military-industrial/engineering sector is very vulnerable, many towns are dependent on one or two huge plants, large distances make it difficult for displaced employees to find new work, production units have traditionally carried out important welfare functions. There has been fear of how the public would react to economic insecurity and inequality, after decades of guaranteed jobs and egalitarian rhetoric.

However despite all the talk, there is no sign of a positive industrial/employment policy being introduced. Popular on the centre-left is the idea of setting up large Financial-Industrial Groups on the Japanese or South Korean model, and Yeltsin issued a decree backing the concept in December 1993, but little has come of it. It is sometimes commented that Moscow simply lacks the administrative capacity to put such a scheme into practice.

The method of privatization used in the first phase (to 1994) delivered control of most large firms to the existing management and the workforce. In the current phase shares are being sold for cash to all comers, but most Russian firms are still a long way from the situation where owners can force radical change against the wishes of employeees. The government is still a very large shareholder, and the approach of elections can only intensify its existing cautiousness.

The strategic choices facing the Russian economy are sometimes presented as a) successful adaptation on the Polish/Czech model; b) a state-backed drive to world competitiveness in high-technology sectors; c) Kuwaitization. It is beginning to look as if the last option is going to impose itself by default.

2. The Political Situation in Russia in 1995

Yeltsin's shift to the centre

The political atmosphere in 1994 and 1995 in Russia has been far less tense and polarized than it was in 1992 and 1993. At that time Yeltsin was still able to persuade his supporters in the West that he and his democratic followers were engaged in a life and death struggle to finish off the menace of communism and to ward off the threat of a "red-brown" seizure of power. Now there is a far broader consensus and much overlapping of party programmes. There are four main reasons for the change

i) The political effects of privatization. It is clear that the decision was taken to give priority in distributing shares to managers and workers quite deliberately to maximise support for the change. Many managers in the production sectors (a key part of the old Soviet elite) have now become proprietors, with a vested interest in private ownership and political stability. What is more, their political allies in local and regional administrations have often been brought in on the deal. A price has naturally had to be paid in stagnation and monopolization (see above), but elite attitudes have been changed for good.

ii) The demoralization of the liberals. By the end of 1993 economic reform had produced almost entirely negative results, and the attempt to implement Western democratic practices in Soviet institutions had led to a civil-war- threatening constitutional crisis. In resolving the crisis their leader Yeltsin had acted illegally, resorting to traditional Russian authoritarian methods. Then in the December elections they were outvoted by the Communist and extreme nationalist opposition. Meanwhile the high hopes they had placed on assistance from the West proved to be exaggerated.

iii) The discrediting of a radical opposition alternative. As the institutions of central planning and political control have faded away, and as the powers of independent businesses and the regions (and the newly independent states of the CIS) have become entrenched, it is difficult to see how anything resembling the former Soviet system can be restored. The opposition itself is split between nationalist and socialist elements. Yeltsin's willingness to use force in October 1993 appeared to cut out the option of an insurrectionary route to power.

iv) Yeltsin's support-building strategy. As early as summer 1992 Yeltsin was diluting his liberal reformist cabinet by bringing in centrist industrialists such as Chernomyrdin and Shumeiko. In 1993 he acted even more determinedly to broaden his base, wooing the regions and manoeuvring to build support in the army and the security services in his struggle with parliament. After the success of Zhirinovsky's LDPR and of the Communist Party in the parliamentary vote of December 1993 he moved a stage further, sacking Gaidar, inviting all parties and groups to sign an agreement on "Civic Accord", and even, later, trying to bring Communists into the goverment. At the same time he adopted a more and more nationalist tone in foreign policy, particularly vis-à-vis the "near abroad" countries of the CIS and the Baltic region, and took a harder line on law and order, stealing the clothes of the right. It was no surprise when at the beginning of this year, after the invasion of Chechnya, Gaidar's Russia's Choice party formally dissociated itself from Yeltsin and his government.

Political actors

It is a sign of the weakness of civil society in Russia that political parties are on the whole poor, badly organized and often short-lived. At the local level, especially outside the main cities, they have little presence, apart from television appearances by their leaders on television. The main political actors are local notables, often elected on a non-party ticket. The only significant exception are the CPRF and their Agrarian Party allies, who appear to have retained their mobilization capacity.

In Moscow most attention is directed to the activities of well-known political personalities and influential lobbies. These actors have proved quite capable of splitting existing parties and bringing into being new parliamentary fractions with no mass or organizational base in the country. During 1995 impending elections have provoked a constant turmoil at the upper levels, as individuals and factions seek advantageous postures and a place in alliances which have a chance of overcoming the 5% threshold for entry into the new Duma.

Powerful interests commonly cited are the Agrarian lobby, the oil and energy lobby, the military-industrial/engineering lobby, and new trading and financial groups. To call them lobbies overstates their unity and activism, but their adherents appear to share broad policy preferences. Manufacturing industry in general, for example, sees itself threatened by rapid liberalization, and calls for state interventionism, high military budgets and a drive to export arms. Energy groups, on the other hand, stand to gain from market pricing and lower taxes. Inside both sectors, of course, there are splits, e.g. between more West-oriented and more CIS-oriented elements. Neither sector appears to have succeeded in establishing strong links with a political party which will reliably represent it.

The highest political visibility is enjoyed by bankers. After the rift between Yeltsin and the liberals, many appear to have broken with Russia's Choice, backing a new parliamentary fraction "Stability" which supported the government's actions in Chechnya. They are likely to back Chernomyrdin's new electoral bloc "Russia - our Home", which has also gained the support of energy-industry leaders. There appears to be potential strong manufacturing and agrarian support for a left-centre bloc, whose contours are still not clear. Although the picture is blurred (some financial and energy groups appear to support Yavlinsky's moderate-liberal "Yabloko" party, and some Zhirinovsky's nationalists), the general outline is one of consolidation in the centre, and this is in harmony with the general climate of opinion among the Russian elite, which has largely adjusted to the new regime, and seeks stability above all else.

3. Political Prospects

The Election Outlook

It is not surprising, in this light, that there has been so much talk in Moscow of postponing the forthcoming parliamentary elections, since the drift to the centre does not appear to have affected the wider electorate. The voters appear to have shed their apathy of 1994 (current predictions are of a 70% turnout in December), and in the absence of strong loyalties to established parties they appear to be ready to respond to populist appeals. Economic issues are high among voter concerns, and Gennady Zyuganov's Communist Party has been doing well in local elections. The nationalist vote will be split between Zhirinovsky, Rutskoi, and whatever group manages to attract General Aleksandr Lebed, recently sacked as commander of the 14th Army in Moldova, but it is sure to be substantial.

The Yeltsin camp is placing its reliance on loyal representatives of regional and local elites who can do well in the single-member constituencies (which contribute half the seats in the Duma, or lower house) as independents. It can also count on substantial financial backing for the campaign and on its control of national television to boost the chances of Prime Minister Chernomyrdin's bloc. An agreement has just been reached between the President and both houses of parliament about election regulations. It envisages tight restrictions on the number of Moscow-based politicians who can be included in the national party lists from which half of the Duma will be elected. It also is reported to confirm that members of the upper house will be nominated by regions rather than elected. It would be difficult to think of clearer evidence of Yeltsin's new political alliance with the regional establishments, who now form an important section of his "party of power". With the decline of Russia's Choice, contaminated in their ideas by its past support for the government, a large part of the intelligentsia is expected to vote for Yavlinsky's Yabloko Party, which has always been critical of Yeltsin.

The Duma is relatively weak compared to the Presidency and even compared to the upper house of parliament in the current constitution. December may bring a fresh intake of troublesome deputies, but it seems likely that the executive's various preventive measures will avoid any serious political upsets. More difficult to predict is the outcome of the Presidential elections due in June 1996. Judging by current opinion polls Yeltsin seems to have little chance of avoiding humiliating defeat, and it is often suggested in Moscow that he will simply put off the vote if things do not improve.

Further prospects

It is not surprising in view of Russia's history and the nature of its political traditions, that the establishment should see the key to stability in minimizing democracy. And the country faces enormous tasks and social upheavals if it is to carry through a proper economic restructuring. Yet Russia has experienced to the full the destruction and the stagnation which dictatorship can lead to, and in recent years it has seen how democratic institutions can be used to help resolve differences with minimum bloodshed. It seems likely that in the next decade we shall see the persistence of more or less limited democracy resting on a more or less stable elite consensus.

It would be foolish, of course, to rule out a militaristic regime coming to power in Russia. The nation is suffering from a severe post-imperial trauma, the army has already twice been forced into politics, and many of its officers regard "democrats" with open contempt. The far right enjoys greater and more intense support than anywhere else in Europe. But the period of disorientation and instability when this outcome seemed most likely has passed.

Barring political catastrophes, we can expect to see governments in the Kremlin which are sensitive to the over-riding imperative - economic and political cooperation with the advanced countries, and construction of an economy compatible with the outside world. It is noticeable that the Chernomyrdin government has maintained a much tighter financial policy than its outwardly more radical reformist predecessors. This generalization includes the Communist Party: it is not as respectably social democratic as its Polish or Hungarian counterparts, and it contains a strong nationalist element, but in power it could well be forced to come to terms with reality in the same way as they have.

This is not to predict a smooth path, either in Russia's domestic politics, in relations with its former Soviet neighbours or in relations with the wider world. The situation is too difficult, and too many unprecedented problems have to be dealt with. But the broad outlines of a likely future are now becoming visible.

[1] V. Cable, "A law unto themselves", *The Independent*, 29 December, 1994.

[2] *Financial Times*, 6 March, 1995.

Table 1: The Russian public's support for parliamentary groups

	Seats in lower house Jan 1994	% Support among electorate* April 1995	May 1995	Final support: expert consensus estimate+
Forward Russia (Boris Fedorov)		5	2	<5
Russia's Choice (Gaidar)	76	4	5	5
Yabloko (Yavlinsky)	25	8	6	16
Party of Self-Government (Sv. Fedorov)		4	4	8
Unity and Accord (Shakhrai)	30	2	1	5
Russia our home (Chernomyrdin)			4	6
New Regional Politics	65			
Rybkin bloc			2	<5
Congress of R. Communities (Skokov, Lebed)		2	2	<5
Great Power (Rutskoi)	0	4	2	<5
Democratic Party (Glazev)	15	2	3	<5
Women of R.	23	7	6	6
Agrarians	55	2	2	10
CPRF	45	7	6	11
Liberal Democrats (Zhirinovsky)	63	5	4	10

* *Moscow News*, 1995, no.21/22 +*Golos*, 1995, no.23

Table 2: Support for and Opposition to Presidential candidates (% of Russian voters), April 1995*

	Would vote for	Would not vote for under any circumstances
Grigory Yavlinsky	12	2
Svyatoslav Fyodorov	10	0
Gennady Zyuganov	9	9
Boris Fyodorov	9	1
Aleksandr Rutskoi	8	12
Vladimir Zhirinovsky	7	39
Aleksandr Lebed	7	2
Yegor Gaidar	5	16
Boris Yeltsin	4	35
Viktor Chernomyrdin	3	2

Poll conducted by Public Opinion Foundation, reported in *Obshchaya gazeta*, 1995, no. 21 (May 1995)

Table 3: Russian mass attitudes to political issues, March 1995+

View concerning main problem of population:

Rising prices	70%
Crime	56%
Unemployment	33%
Pollution	20%
Corruption	20%

Estimate of personal economic situation over last 6 months:

Has deteriorated	55%
Is the same	31%
Has improved	13%

Marketization in Russia is

the right policy	38%
the wrong policy	33%

+Poll in 12 regions carried out by Sociological Institute of Russian Academy of Sciences, Yekaterinburg University, and Kazan University, reported in OMRI daily bulletin 3.4.95

Table 4: Russian Economic Performance

	1990	1993	1994	
Industrial output	100%		56%	May '95 increase?
		100%	78%	
Electricity consumption	100%		84%	
Consumer goods production		100%	74%	
Retail trade turnover		100%	106%	
Real individual incomes		100%	119%	
% of labour force unemployed			6%	
on short time			35%	
Monthly retail price inflation		21%	c10%	May '95 8%
Foreign direct investment		$1.36bn	$1bn	(1984-94 = <$7bn)
Proportion of GDP accounted for by privatized firms				Jan '95 62%

**Ekonomika i zhizn'*, 1995, no. 1; *Transition*, 15 February, 1995, pp. 12-3; *Moscow News*, 1995, no. 20/21

06/20/1995

CURRICULUM VITAE

Name: Renzo DAVIDDI

Date of birth: 18 February 1956, Grosseto, Italy
Nationality: Italian

Present position: (since 15.10.1994)
Principal Administrator
European Commission
DG II BU 1 1/34
200 Rue de la Loi
B - 1049 Brussels (Belgium)

Tel. + 32-2-299-39-21
Fax. + 32-2-295-27-91

Education:

1981, University of Siena - Laurea cum laude in Economics

1984, University of Birmingham - M.Soc.Sc.in Russian East European Studies and Economics

1988, European University Institute, Florence - PhD in Economics

Working experience

- College of Europe - Natolin (Poland) - Academic year 1994-1995 - Coordinating professor for the Postgraduate course on: "Relations between the European Union and Central and Eastern Europe".

- European Institute of Public Administration, Maastricht: from 15 September 1993 to 15 October 1994, Senior Lecturer.

- European University Institute, Florence: Academic Year 1992-93, Jean Monnet Fellow in the European Policy Unit.

- Fondazione Istituto Gramsci, Rome. from 1991, Scientific Advisor.

- Innocenzo Gasparini Institute for Economic Research, Bocconi University, Milan: from October 1991 to August 1992, Research Fellow.

- Commission of the European Communities - Directorate General for Economic and Financial Affairs, Brussels: from 15.9.1989 to 16.9.1991, Economist.

- European University Institute, Florence: from 1.11.1988 to 31.7.1989, Research Associate (Part-time).

• European University Institute, Florence: from 1.10.1986 to 15.9.1989, Library Assistant for the Economics Department (Lecturer A7/A8) (Part-time).

• European University Institute, Florence: from 1.9.1983 to 30.6.1988, Research Assistant for the research project "East-West trade and financial relations" (Part-time).

• Compulsory military service - Air Force: from 1.4.1981 to 31.3.1982.

Main publications

a. Refereed Journals

"Innovazione interna e trasferimento di tecnologia dall'occidente in URSS", *Rivista Internazionale di Scienze Sociali*, n. 3, 1986, pp. 391-407.

"Soviet foreign trade reform. Short-term adjustment versus structural variations", *Jahrbuch der Wirtschaft Osteuropas*, 13(1), 1989, pp. 221-253.

"The economics of rouble convertibility. New scenarios for the Soviet monetary economy", (with Efisio Espa), *BNL Quarterly Review*, 171, 1989, pp. 441-467.

"Foreign aid and payments agreements in Central and Eastern Europe", (with Efisio Espa), *Economic Notes*, 21 (1), 1992, pp. 15-38.

"From the CMEA to the 'Europe Agreements'. Trade and aid in the relations between the European Community and Eastern Europe", *Economic Systems*, 16(2), 1992, pp. 269-294.

"Commercio e aiuti nelle relazioni tra la CEE e i paesi dell'est", *Politica Internazionale*, XXI(1), 1993, pp. 155-170.

"On the macroeconomics of transition" (Book Review), *Ricerche Economiche*, 48, 1994.

"Privatization in the transition to a market economy", *BNL Quarterly Review*, 191, 1994, pp. 399-429.

"Regional trade and foreign currency regimes among the former Soviet republics", (with E. Espa), *Economics of Planning*, 28, 1995, pp. 29-57

b. Monographs

Aiuti, condizionalità e commercio estero nell'Europa centro-orientale, Monographic issue of the journal "Europa-Europe", 1(3), 1992 - editor

Currencies in Transition. The road towards convertibility in Poland, Russia and Yugoslavia, (with Efisio Espa and Milica Uvalic), Rome, ISCO, 1992

Diritti di proprietà e privatizzazioni all'est e all'ovest, Monographic issue of the journal "Europa-Europe", 2(3), 1993 - editor.

Property rights and privatization in the transition to a market economy. A comparative review, Maastricht, EIPA, 1995 (forthcoming).

Neil Malcolm: Brief Curriculum Vitae

Date of Birth: 30.4.43

Nationality: British

Current Posts:

Professor of Russian Politics, and Head of the Russian and East European Research Centre, University of Wolverhampton

Associate Fellow, Russian and CIS Programme, Royal Institute of International Affairs

Previous Posts:

Head of Soviet Foreign Policy Programme, subsequently Russian and CIS Programme, Royal Institute of International Affairs, Chatham House (1989-1993)

Academic Qualifications:

BA (Hons), Russian and French, University of Oxford (1965)
DPhil, Russian History, University of Oxford (1974)
MSocSc, Political Sociology and Soviet Studies, University of Birmingham (Centre for Russian and East European Studies) (1979)

Principal Publications:

'Soviet Interpretations of American Politics: A Case of Convergence?', *British Journal of Political Science*, Vol. 12, 1982.

Soviet Political Scientists and American Politics (Macmillan, 1984).

"Soviet Policy making in the Middle East", in P Shearman, P Williams, ed, *The Superpowers, Central America and the Middle East* (Brasseys, 1988).

"Foreign Affairs Specialists and Decision Makers", in D Lane, ed, *Political Power and Elites in the USSR* (Edward Elgar, 1988).

'The Soviet View', in S Gill, ed, *Atlantic Relations in the Reagan Era and Beyond* (Wheatsheaf, 1989).

Soviet Policy Perspectives on Western Europe (Routledge Kegan Paul for Royal Institute of International Affairs, 1989).

The New Eastern Europe : Western Responses (with J Rollo, J Batt, B Granville) (Pinter for Royal Institute of International Affairs, 1990).

'Destalinisation and Soviet Foreign Policy: the Roots of "New Thinking"', in T Hasegawa, A Pravda, ed, *Perestroika: Soviet Domestic and Foreign Policies* (SAGE, 1990).

'The "Common European Home" and Soviet European Policy', *International Affairs*, vol 65, no 4 (Autumn 1989).

'The Soviet Concept of a Common European Home', in J Iivonen, ed, *The Changing Soviet Union in the New Europe* (Edward Elgar, 1991).

'Western Europe', in A Pravda, ed, *The Soviet Foreign Policy Yearbook. 1990* (I B Tauris, 1991).

'Reconstructing Russia', *The World Today*, October 1992.

'State and Nation in the Former Soviet Union', in T Taylor, ed, *The Collapse of the Soviet Empire* (RIIA, 1992).

'The Soviet Union', in J Story, ed, *The New Europe* (Basil Blackwell, 1993).

What is Europe (BBC/Open University Audio Tape for module AD280, as contributor, 1993, and update 1994)

Russia and Europe: An End to Confrontation? (editor and contributor) (Frances Pinter, 1993)

'The New Russian Foreign Policy', *The World Today*, February, 1994

'The Foreign Policy Decision-Making Process in Ukraine', *JIIA Papers*, no.8 (1994)

'Foreign policy decision making', in P Shearman, ed., *Russian Foreign Policy* (Westview Press, 1995)

Internal Factors in Russian Foreign Policy is due to be published by Oxford University Press in February 1996 (coauthored with A Pravda, R Allison and M Light)

Neil Malcolm was General Editor of the first series of RIIA Post-Soviet Business Forum publications (12 volumes, in 1992-93)

CURRICULUM VITAE

Piero Sinatti

nato a Livorno 1.10.1937

Laureato in lingua e letteratura russa presso l'Università di Pisa. - Stage di un anno all'Università di Leningrado.

Studioso del mondo (ora ex) sovietico, giornalista.

Dal 1981 è collaboratore fisso del quotidiano "Il Sole - 24 Ore" (Milano) con articoli dedicati al mondo comunista, in particolare quello (ora ex) sovietico.
I temi trattati sono di caratterre politico, economico, sociale e culturale. Collabora con recensioni ed altri scritti al supplemento culturale-letterario settimanale dello stesso giornale.

Precedentemente ha collaborato a Stampa Sera (Torino) ed alla Gazzatta del Popolo. Ha scritto anche sul "Tirreno"(Livorno) e sul Manifesto.

Suoi scritti sono apparsi. ultimamente, tra l'altro, sulle riviste "Limes"(Roma), "Affari Esteri"(Roma) "Testimonianze"(Firenze).

"Il dissenso in URSS", Savelli, Roma, 1974 (editor)

Cura e prefazione a Varlam Shalamov, "Kolyma" Roma, 1976, 1978.

"Il dissenso in Urss nell'epoca di Brezhnev", Vallecchi, Firenze 1978

Presentazione di aavv "I mille prigionieri di Gorbacev" Associazione internazionale per i dirittti dell'uomo, Roma 1985

Prefazione a V. Shalomov "Nel lager non ci sono colpevoli" Theoria, Roma 1992

"Cosa vogliono i russi", Theoria Roma, 1993 (editor)

"I conflitti armati nell'ex URSS" in "Post Comunismo terra incognita" a cura di Argentieri, CESPI, Edizioni Associate, Roma 1994

In preparazione "La Russia dopo l'URSS" (1991-1995), (titolo provvisorio).

(2)

OIL GEOPOLITICS IN THE ASIAN AEREA OF THE FORMER SOVIET UNION

My survey is based on russian perceptions and documents.

GEOPOLITIC VACUUMS AND OIL

The events following the failure of Soviet Union show that in geopolitics the vacuums necessarely tend to be filled, especially if they consist in oil and gas. In the year 2000 the oil and gas fields in and near the Caspian Sea are bound to become a fundamental source for the international energetic supply as the oil areas of the Gulf and Sibiria.

The above areas are former Soviet Asian republics and people there are of turkic origin and language, their religion and culture are muslim. I'm referring to Azerbaijan in the transcaucasian region and Kazakhstan, Turkmenistan and Uzbekistan in Central Asia. Also Chechnya in the Caucasian region and in the Russian Federation is particularly interesting, not only for its oil production, but for the pipeline connecting the Caspian area to the Russian terminals of Novorossijsk. The Russian supertankers sail from this port bound to the western markets.

SOME FIGURES

The Caspian area oil amounts to 10 billions tons. Other experts give different figures from 5 to 7 billions. Azerbaijan and Kazakhstan claim that the Caspian offshore oil belongs to them, because it is in their territorial waters.

<Because the time allowed is short, detailed information about the chief oil fields as Cirag, Azer, Guneshli in Azerbaijan and Tengiz and others in Kazakhstan are to be found in the hand-out / you will get / you have got. Because of the same reason I will be obliged to cut some parts>

(Oil companies are already working in the azerbaijani reserves of <Cirag>, <Azer> and <Guneshli>, near Baku. The whole potential is estimated to be about 500 millions tons.

The Azerbaijani oilfield in <Karabakh> is estimated to have a potential of 100 millions. Finally, during the "Khazarneftgaz-95" international exhibition of last May in Baku, the Shekhdeniz oilfield was declared the latest and most important one of the Caspian shelf .

It is the Kazakh oil which is being drilled in the Tengiz oilfields. The amount of the reserves is estimated approximately 900 milion tons. Farther inland , in the Kazakh north west region of Aktjubinsk there are reserves estimated about 140 milions tons. In the year 2005 the oil production in Kazakhstan will amount to 80 million tons.

I will not mention the very important gasproduction of Kazakhstan and Turkmenistan).

UNSTABLE AREAS

Between December 1991 and the first half of 1993, the new Russia involved in the economic radical reforms, showed no interest at all in the former soviet asian republics.

In the Transcaucasian region the situation has been dramatically unstable and there have been conflicts since 1989-

1990. The most important and longest is the one between Azerbaijan and Armenia for the control of Armenian enclave in the azeri region of Nagorno Karabakh. The republic of Georgia was shattered by the conflict against the abkhaze separatism (1991 - 1994).

At the beginning, the new Russia did not react to the declaration of indipendence of Chechnya in the late 1991.

On the contrary, the Central Asian republics appeared more politically stable apart from the peripheral Tadzhikstan inhabited by sunni muslims and pharsispeaking people. Nevertheless Transcaucasian and Central-asian new states are unable to cope with management problems, weak infrastructures and with the break of the economic and financial ties whit the european west of former Soviet Union. Their military apparatus is very weak or does not exist.

FILLING THE VACUUM

The secular Turkey and theocratic Iran tried to take advantage of the Soviet Union breakdown in the former soviet asian republics.

Turkey immediately intervened in Azerbaijan and in Central Asia with programs of economic, technical, cultural and military cooperation. Turkey offers an appealing western pattern of economic, political and cultural development, while Iran offers a model of theocratic state and command-oriented economy.

Up to now the radical islamic influence has been rather weak in all these regions.

Nevertheless, both the Asian leadership and Moscow exploit the fear of fundamentalism for their aims. The former wants to impose an authoritarian or charismatic presidential power. The latter wants to justify its willingness of regaining control of the former Soviet south east, because of vital interests above all energetic.

Besides, Moscow fears separatism inside its boundaries from Caucasus to the Volga and Urals russian regions such as Turkic and muslim Tatarstan and Bashkortostan.

For example, caucasian Chechen fighters ethnically not Turkic, look at Turkey as a prospective ally and partner.

A TURNING POINT IN RUSSIAN NEW DEFENSE CONCEPTION

Owing to the previous mentioned reasons Russian leadership drew up the new strategic doctrine in the half of 1993. The strategic commitment shifts from west to south-east. Moscow claims to place more armements in the Caucasian region than the ones allowed to by the Cfe (Treaty of Conventional Forces in Europe). At the same time in 1993 Russian troops became peace keeping forces in the trouble spots (Nagorno Karabakh and Abkhazia).

There are connections with this strategic turning point. In the spring of 1993, the Karabakh Armenians secretely supported by Moscow conquered Azerbaijani strategically important territories. Soon after the proturkish president Abulfaz Elchibej is overthrown by a coup organized by the colonel and businnesman Suret Gusejnov, favoured by Russians. President Elchibej had excluded Russian oil companies from the so called "century deal" between Baku and big western companies led by Bp. A former member of the Soviet Communist Politburo Gejdar Aliev becomes the new head of the State. He tries to balance Moscow pressure, coming closer to Washington and London governments. In October 1994 a coup organized by Gusejnov against him fails. In September he had signed the so called "century deal" with the consortium of westwrn oil companies. A second coup fails in March 1995.

In 1993-1994 the Abkhaze separatists supported by Russian military circles win Georgia, a repubblic bordering with Azerbaijan. Georgia is led by President Eduard Shevardnadze.

In June 1993 in Grozny, capital of Chechnya, a prorussian attempt of overthrowing separatist president Djokhar Dudaev is crushed.

Because of the civil war in Tadzhikstan, Russia increases her military presence in Central Asia.

In 1994 Moscow obtains two military bases both in Georgia and Armenia and the control of air and borders with Turkey and Iran.

In 1995 Russia obtains a base of antimissile electronic control in Azerbaijani southern district of Gabal.

THE NEW WESTERN PRESENCE

Turkey and Iran largely increase the economic, technical and cultural cooperation with the former soviet muslim countries, thus favouring their partecipation to organisms such as Eco (Economic Cooperation Organization made up of Turkey, Iran and Pakistan).

Nevertheless neither Turkey nor Iran own capitals to invest in the former soviet oil areas.

The really new fact of the nineties is the entry of big western companies in the Caspian area for investments and exploitation of oil resources.

The first "century deal" was signed in Almaty, capital of Kazakhstan, in 1993, between the American company "Chevron" and the Kazakh state company "Tengizoil". They created the joint venture "Tengchevroil". Chevron will invest until 2005 10 billion dollars.

In September 1994 president Geidar Aliev and president of Azerbaijani state oil company (Socar) Natikh Aliev signed the second "century deal" with the international consortium led by Bp. The American companies Amoco, Pennzoil, Exxon got 44% of the total share. The consortium will invest 7,5 billion dollars.

At the beginning, Russia was left out of both the "century deals". She will join the deals in 1994, when the Russian oil company "Lukoil" is able to partecipate with 10% to the exploitation of both the Tengiz and Azerbaijani oil fields. In May 1995 Lukojl obtains 32% for the exploitation of oil in Karabak oil fields, together with Exxon and Agip. The Italian company partecipates also to the international-Azerbaijani consortium.

Other western companies are present in other oil fields. For example "Mobil Oil" is going to exploit the oil in kazakh north-western region of Aktyubinsk.

PIPELINES

Russia owes her entry in this oil area to multiform capacities of political, economic and military pressure. On the other hand Russia has to face a serious slump in her own oil sector. According to Russian experts, in 1997 the production will be reduced of 10% compared to the 1995 one. We have to point out that American companies such as Amoco, Mobiloil and Exxon partecipate to Russian projects in regions of Petchora, Ob and

Sakhalin. This topic was discussed in Moscow talks in the technical commission Al Gore - Chernomyrdin last week.

Let us examine now the core of the question: how to get the oil to the international markets. Moscow has the monopoly of the pipelines and terminals concerning the oil of the Caspian area, which gives her the power of establishing the crude oil flows and let her obtain very high royalties.

This situation compelled American companies, the first was "Chevron", to press upon the producing countries in order to build alternative pipelines, which must not cross Russia, but arrive to the mediterannean ports of Turkey, through the latter's territory.

The Usa government does not want the Iranian alternative way. The japanese "Mitsubishi" suggested for the Kazakh oil an eastern route through China to the Chinese and South Corean ports, but this variant appears improbable.

The Turkish alternative route is intended to eliminate russian control from the pipelines and increase regularity, efficiency and quantity of oil flows. Last spring high officials of the American government visited the capitals of Transcaucasia , CA and Turkey (I'm speaking about the energy deputy secretary William Withe and defense secretary William Perry). Washington supports the alternative projects through Turkey both politically and diplomatically..

The "Turkish alternative project" establishes that from Baku the Azerbaijani oil should pass through Armenia and enter into East - Turkey to get to the Mediterranean terminals, which are blocked by antiiraqi sanctions. According to a variant the Turkish way should cross Georgia , from Baku to the Georgian-Adjary port of Batumi.

The turkish alternative includes not only the azerbaijani oil, but also the kazakh one to be transported to Baku through the Caspian Sea.

Turkey is interested in the southern alternative route, in accordance with Washington. A year ago Ankara denounced the treaty of Montreux and imposed drastic limitations to the straits passage of the russian supertankers, to prevent environment catastrophes. Actually this unilateral measure limits the oil increasing supply of the Caspian area strongly. Therefore alternative routes are to be found.

As to Russians this is an attack towards their vital interests. Once lost the control on the asian oil flows, Moscow misses its contractual force. Since Russia lacks capitals to be invested, her strength lies on the pipeline absolute control.

Moscow reacted this way. In order to avoid the turkish straits limitations, it agreed with Sofia and Athens upon an alternative project of its own. The supertankers from Novorossiisk will have to reach the bulgarian port of Burgas. The transbalkanic pipeline will start from here to transport the crude oil to the greek port of Aleksandropolis in the Aegean Sea. The russian foreign minister Andrei Kozyrev's recent visit to Athens and the premier Cernomyrdin's mission to Sophia assured complete agreement. The Caspian oil appears in the turbolent area of the Balkans.

At the same time Moscow claimed its right to partecipate to the decision making concerning the Caspian Sea exploitation, according to the 1921 and 1940 Soviet-iranian treaties. Last June a spokesman of the Foreign Affairs Ministry (Mid) Grigorii Karasin officially declared: "Russia reserves the right to take the necessary steps to restore the violated order and eliminate the consequences of the unilateral actions aiming at sharing the sovereignty on the respective caspian areas and establishing the state borders". Previously the iranian foreign viceminister Abbas Maliki joined the Russian Mid to claim a common regime of the Caspian Sea.

During an official visit to Moscow of "turkmenbashi" Sapurmurat Nijazov, President Eltsin declared: " We cannot divide the Caspian Sea. On the contrary we have to exploit it together in all its aspects. This does concern also the exploiting of gas and oil".

Azerbaijan and Kazakhstan were against the Russian statement as well Usa. William White declared to the officials of the oil producing countries: " You are prospective important oil and gas producers, competitors and not partners of Russia and Iran".

In 1993-1994 Iran decreased its suppport to the armed tadjik opposition fighting against the Dushanbe regime, which is supported by Russians.

In the "Wall Street Journal", the former Usa special ambassador John Maresca wrote: "The Usa are absolutely interested in making the oil pass through Turkey" . The Britons support this concept".

Moscow has another project for the kazakh oil, the so called "Northern Project" . A pipeline pumping the Tengiz and Aktjubinsk oil to the North as far as the regions of Astrakhan and Stavropol should arrive at the Black Sea new terminal of Novyi Port near Novorossijsk. This pipeline avoids passing through the unstable Caucasian regions.

The turkish route clashes with the unstable regions such as Armenia and Azerabijan split by the conflict for Nagorno Karabakh. The 25% of azerbaijani territory has been occupied by Karabakh armenians. Russia can influence both the armenian territorial gains and the stability of the Azerbaijan.

The unstable, shattered and poor Georgia depends on the russian energetic supplies and on the issue of the centrifugal forces of Abkazia, South Ossetia and Adjaria.

Finally, let us talk about Turkey itself. In the east and south east regions, where the pipeline should pass through, the kurd Pkk guerrilla is raging.

There is another old oil route which Moscow wants to take over again. It crosses Chechnya and links Baku to the Russian South. The russian - chechen war can be connected to the Moscow willingness to normalize the Caucasian region where this important pipeline lies.

Nevertheless, the prime minister Victor Chernomyrdin, closely tied to the powerful russian gas-oil complex, wants to get the normalization through a political regulation of the conflict.

We have to stress the fact that last June the russian ministry of energy announced a forthcoming resumption of the activity in the oil complex in Chechnya.

CONCLUSIONS

This is a detailed survey of the so called "great game" for oil. The weak asian oil producing countries, Russia, Usa and regional powers such as Turkey and Iran are involved in this game.

The stake is enormous. Russians perceive the Usa activism in the Caspian-azerbaijani-kazakh oil area as an attempt to hit their vital interests and icrease the control on one of the principal energetic basin in the world. Not only the russian nationalists and communist hardliners share this idea, but also the democratic and liberal wings. The former deputy premier Egor Gaidar accepts the idea of the strategic partnership between Russia and Usa, together with "a real competition in several areas of influence. A competition we are able to cope with. "

The intrinsic weakness of their regimes and Russia proximity put the oil producing countries and the ones through which the turkish route should pass, more under the pressure of Moscow. Georgia and Armenia yielded military bases to the Russian Army.

Kazakhstan supports the so called "northern russian project" for which the Consortium for the Caspian Pipelines (Ktk) was created by Russia, Khazakhstan and Oman oil state company. Finally slight improvements betwenn Moscow and Baku in the sector of state security start to appear.

Nevertheless Russia is vulnerable too, as showed by the chechen war. Signs of recovery in the productive and monetary fields, even if still weak, can be detected.

The latest crisis between President and Duma showed that the political stability is far away. The positive fact is that in the last weeks the prime minister Victor Chernomyrdin seems to be able to become the next President.

PIERO SINATTI

June 1995

Paper presented to the Cespi Eni Seminar, Castelgandolfo, Rome, 3rd July 1995.

THE RUSSIAN PETROLEUM INDUSTRY

25 May 1995

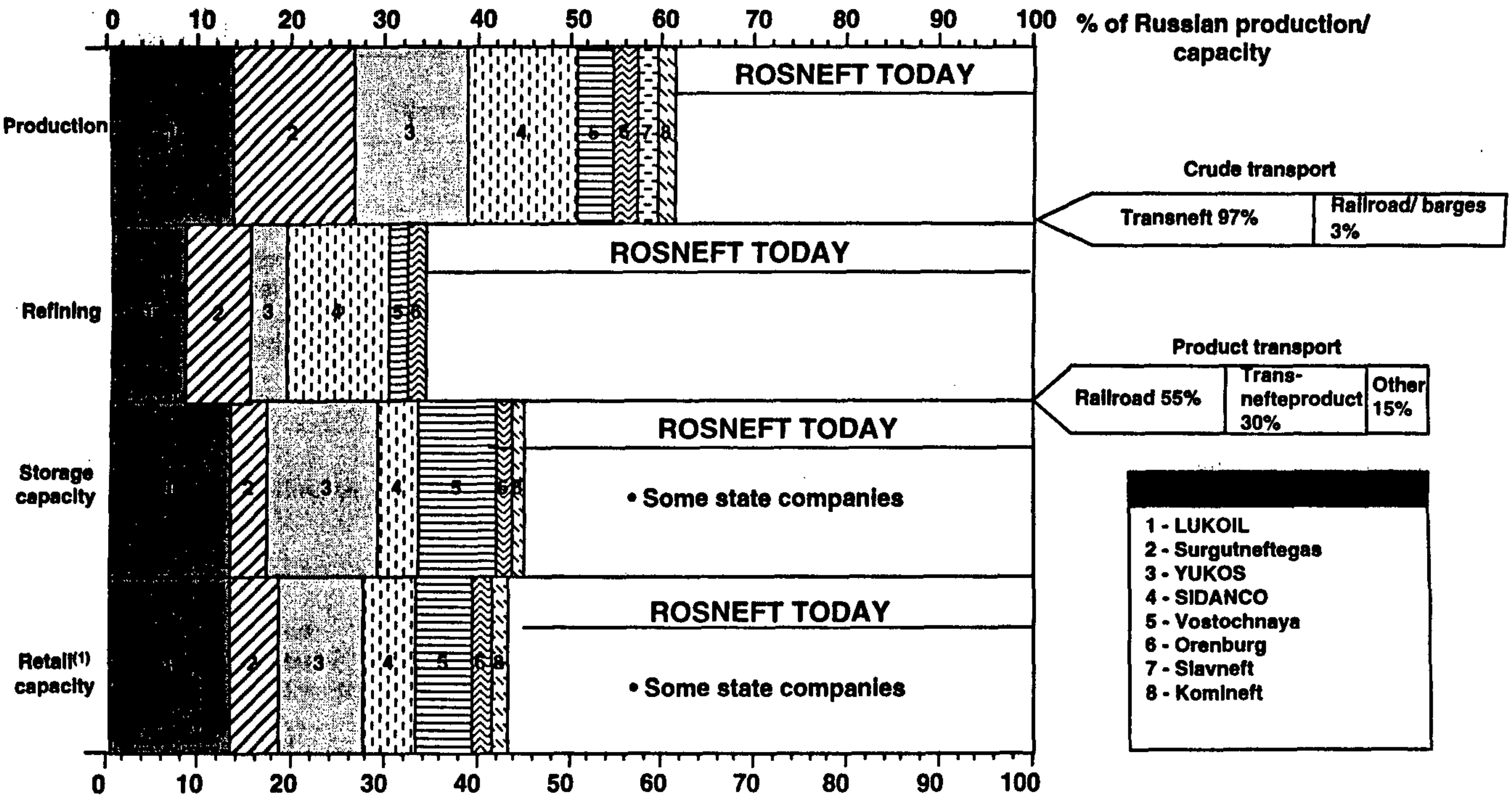
FORWARD

The following exhibits are excerpts from the Thursday, 25 May 1995 BCG conference on the Russian Petroleum Industry. They are incomplete without the accompanying oral commentary

For further information, please feel free to contact any of the following BCG Vice Presidents:

Paul Mitchell	London	44-171-753-5353
John T. Lindquist	London	44-171-753-5353
Charbel A. Ackermann	Moscow	7503-956-2717
William M. Addy	Dallas	214-871-6700
Harold (Koof) Kalkstein	San Francisco	415-732-8000
Tommasso Barracco	Milan	39-2-655991
Marco Pozzi	Milan	39-2-655991
Ullrich Waeltken	Hamburg	49-40-301820

THE NEW VERTICALLY INTEGRATED COMPANIES
Market Shares by Area of Involvement



(1) Excluding sales to industrial users

STRUCTURE OF RUSSIAN OIL INDUSTRY – 1994 (I)

Production ('000 b/d)		Refining		Distribution
		Refineries	Output ('000 b/d)	
TOTAL Russia	 6,333		 3,513	
LUKOIL Kogalymneftegas Langepasneftegas Uraineftegas Nizhnevolzhskneft	***944*** 509 298 98 39	***TOTAL*** Perm Volgograd	***344*** 210 134	 8 regions 150 terminals 1,130 gas stations
SURGUTNEFTEGGAZ Co.	***688***	*Kirishi*	***233***	6 regions 40 terminals 460 gas stations
YUKOS Yuganskneftegas	***571*** 571	***TOTAL*** Kuibishev- Nefteorgsintez Novo-kuibishev	***362*** 200 162	6 regions 90 terminals 940 gas stations
SIDANCO Chernogorneft Kond Petroleum Varieganneftnegas Udmurtneft	***490*** 135 134 94 127	***TOTAL*** Saratov Angarsk	***391*** 49 342	1 region 87 terminals 450 gas stations

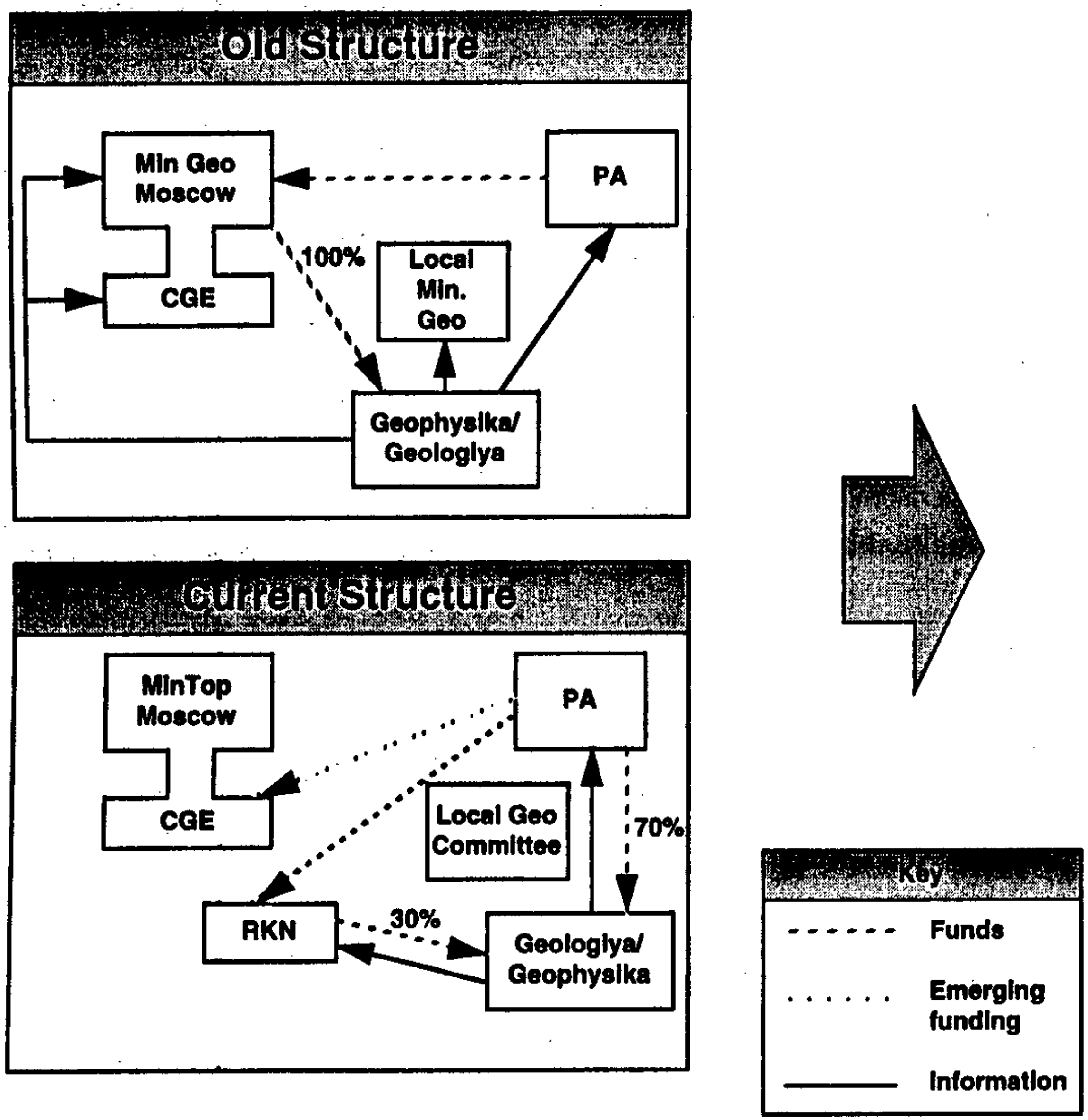
STRUCTURE OF RUSSIAN OIL INDUSTRY – 1994 (II)

Production ('000 b/d)		Refining		Distribution
		Refineries	Output ('000 b/d)	
SLAVNEFT Megionneftegas	262	Mozir (Belorus)	?	
VOSTOCHNAYA Tomskneft	226	Achinsk	105	4 regions 80 terminals 520 gas stations
ORENBURGNEFT	149	Orsk	87	1 region 25 terminals 160 gas stations
KOMI TEK Komineft	102	Ukhta	60	1 region 10 terminals 30 gas stations
TATNEFT				1 region c.a. 17 terminals c.a. 130 gas stations
BASHNEFT	361			1 region c.a. 16 terminals c.a. 100 gas stations

STRUCTURE OF RUSSIAN OIL INDUSTRY – 1994 (III)

Production ('000 b/d)		Refining		Distribution
		Refineries	Output ('000 b/d)	
ROSNEFT	*1,477*	*TOTAL*	*1,555*	
Nizhnevartovsk-Neftegaz	467	Bashkiria refineries (Ufimski+ Novoufimsky)	413	36 regions 614 terminals 4,600 gas stations
Noyarbrskneftegas	455			
Kuibishevneft	176			
Permneft	172	Omsk	316	
Purneftegaz	170	Gorky	319	
Tumenneftegas	32	Grozny	NA	
Sahalinmorneftegas	31	Ryazan	172	
Krasnodarneft	28	Yaroslavl	208	
Grozneft	25	Salavat	128	
Saratovneftegas	25	Moscow	172	
Others (8)	69	Others	147	
Joint ventures	183			
Geological énterprises	65			
Gazprom	117	Gazprom refineries	59	

G&G DATA IS INCREASINGLY CONTROLLED BY PAs



- Central funding is collapsing
- PA's have taken on many responsibilities of Min Geo
  - what work to do
  - who will do work
- Information flows only to paying party
  - central database deteriorating
  - government need to develop own G&G capabilities to estimate reserves

G&G STRUCTURE

VICs

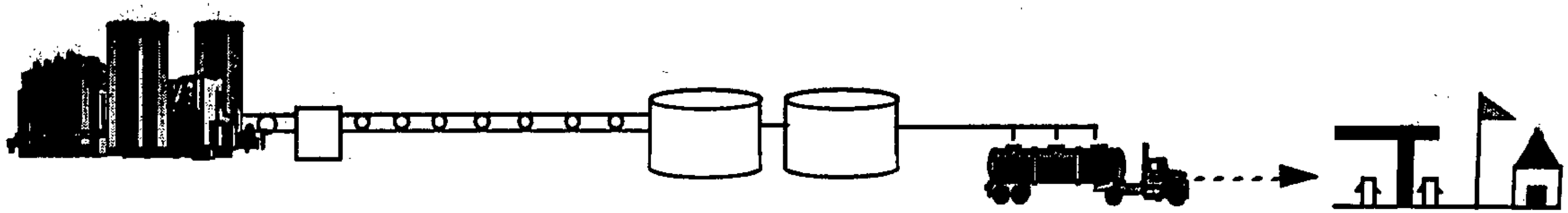
- **Are not planning to take over existing G&G entities**
- **Need to build up own in-house seismic data interpretation capability**

Central government function of reserves inventory assessment and management needs to be reinforced

Individual G&G companies likely to be privatized separately, followed by market-based restructuring (merge, align, reduce capacity)

- **Possible regionally-based groupings under Rosneft**

THE RUSSIAN DOWNSTREAM SECTOR IS CHARACTERISED BY LOCAL MONOPOLIES IN WHOLESALING AND RETAILING



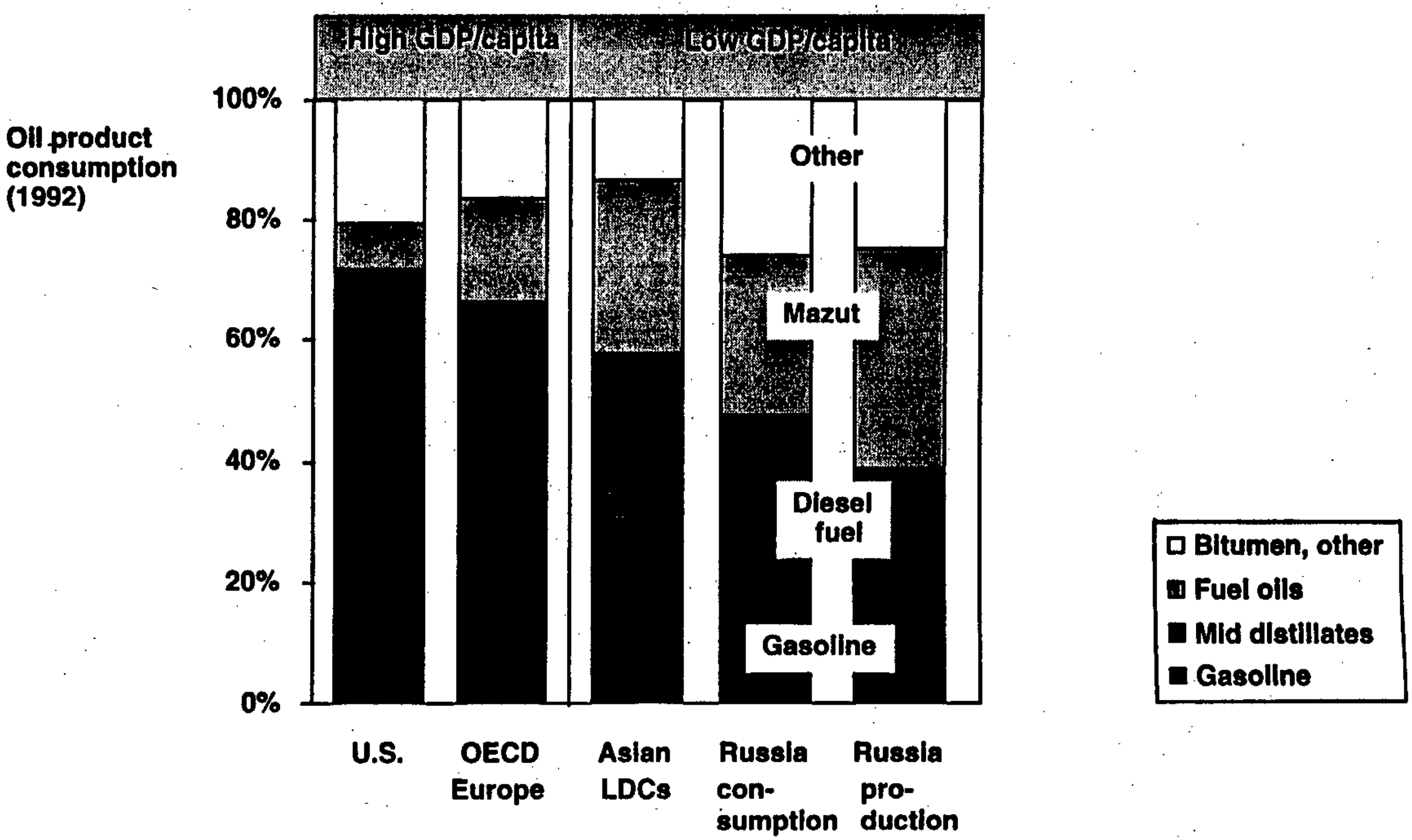
	Refining	Transport to Terminals	Wholesale/Storage	Transport to Retail	Retail
Basic Structure	• 28 Refineries	• Underdeveloped - only 15k km of trunk product pipeline • Majority shipped by rail	• 1227 terminals and other storage facilities	• Small tanker trucks the norm	• 8,915 retail outlets
Ownership	• ~35% held by Russian VIC's	• 100% of product pipeline owned by Transnefteproduct	• 42% held by VIC's • 58% by Rosneft • Local monopolies	• Local distributor with own delivery fleet • Contract delivery also available	• 34% held by VIC's • 60% by Rosneft • Local monopolies

RUSSIAN REFINERIES HAVE LOW UTILIZATION AND CONVERSION RATES

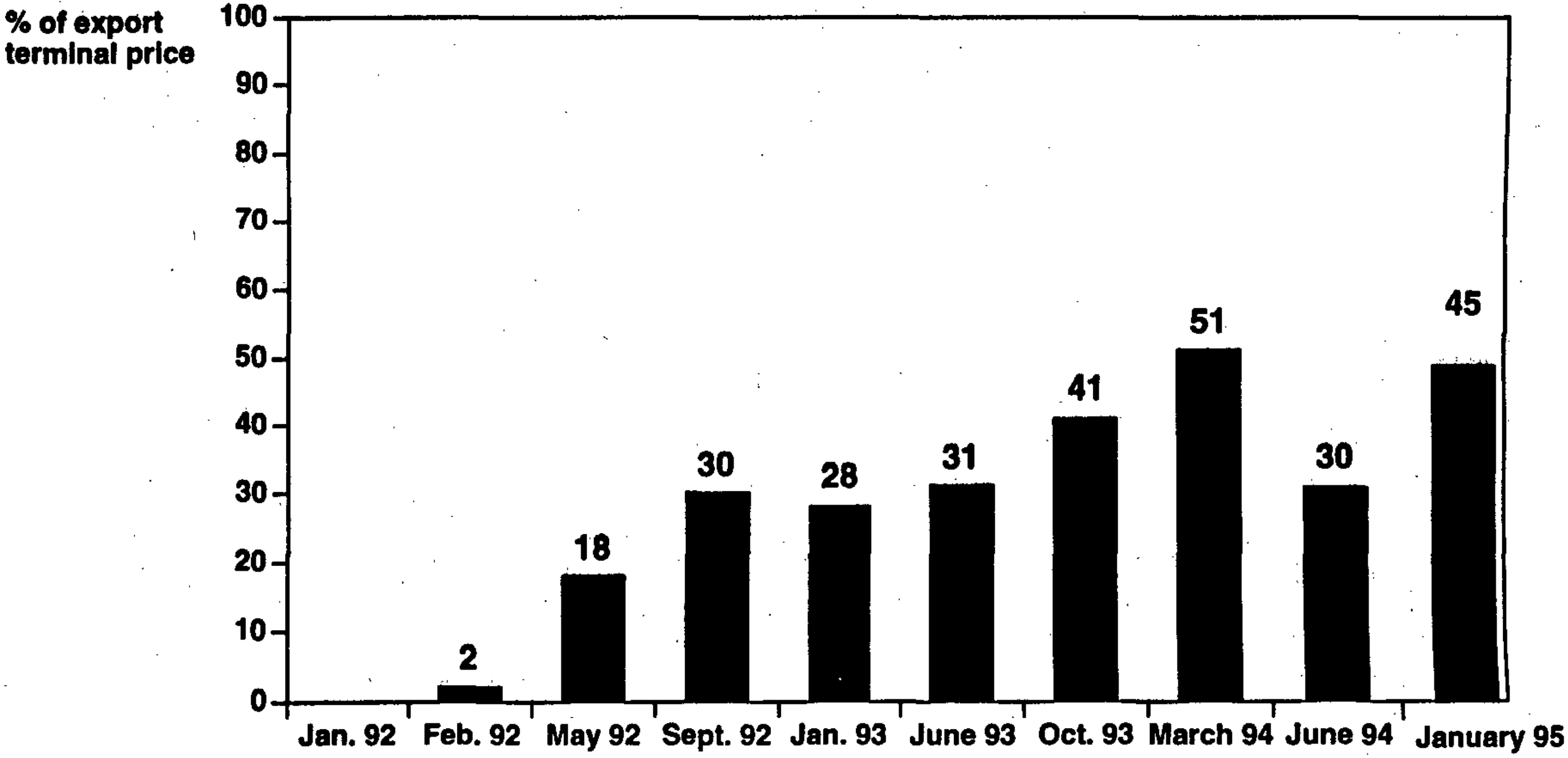
	Russia	W. Europe	U.S.
Typical capacity (kB/day)	~150	120	85
Utilization (%)	65	92	91
Gasoline yield (%)	20	30-50	53

Poor economics as a result

RUSSIA WILL NEED TO SHIFT REFINING CAPACITY TO LIGHTER PRODUCTS

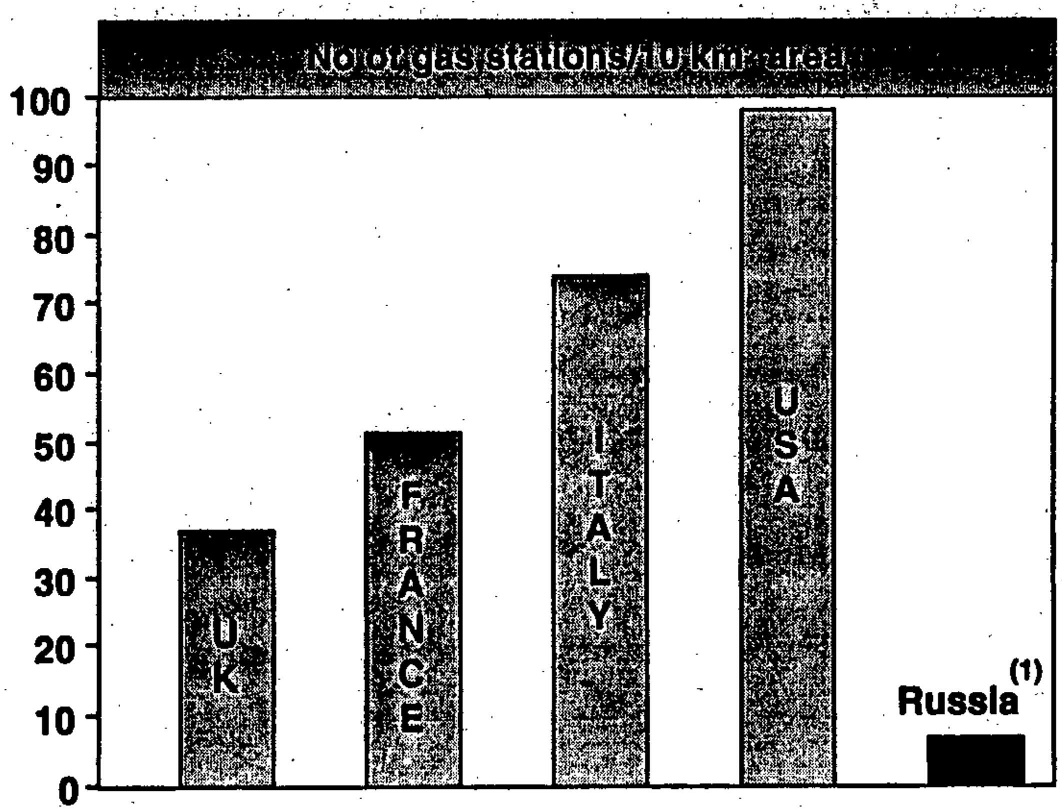


RUSSIAN DOMESTIC CRUDE OIL PRICES HAVE BEEN RISING RELATIVE TO INTERNATIONAL LEVELS



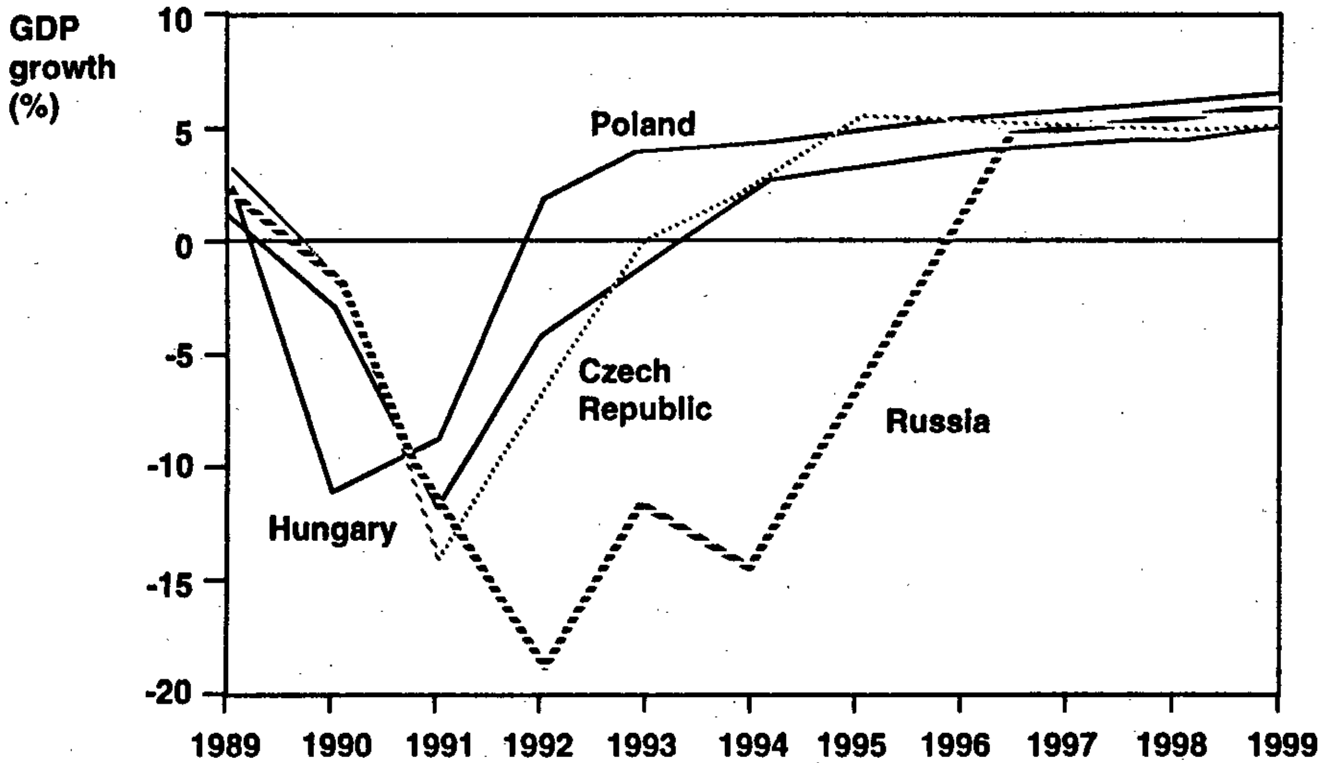
Note: % of export terminal price
Source: World Bank, Russian Economic Trends, Neftecompass

RUSSIA HAS VERY LOW GASOLINE STATION COVERAGE



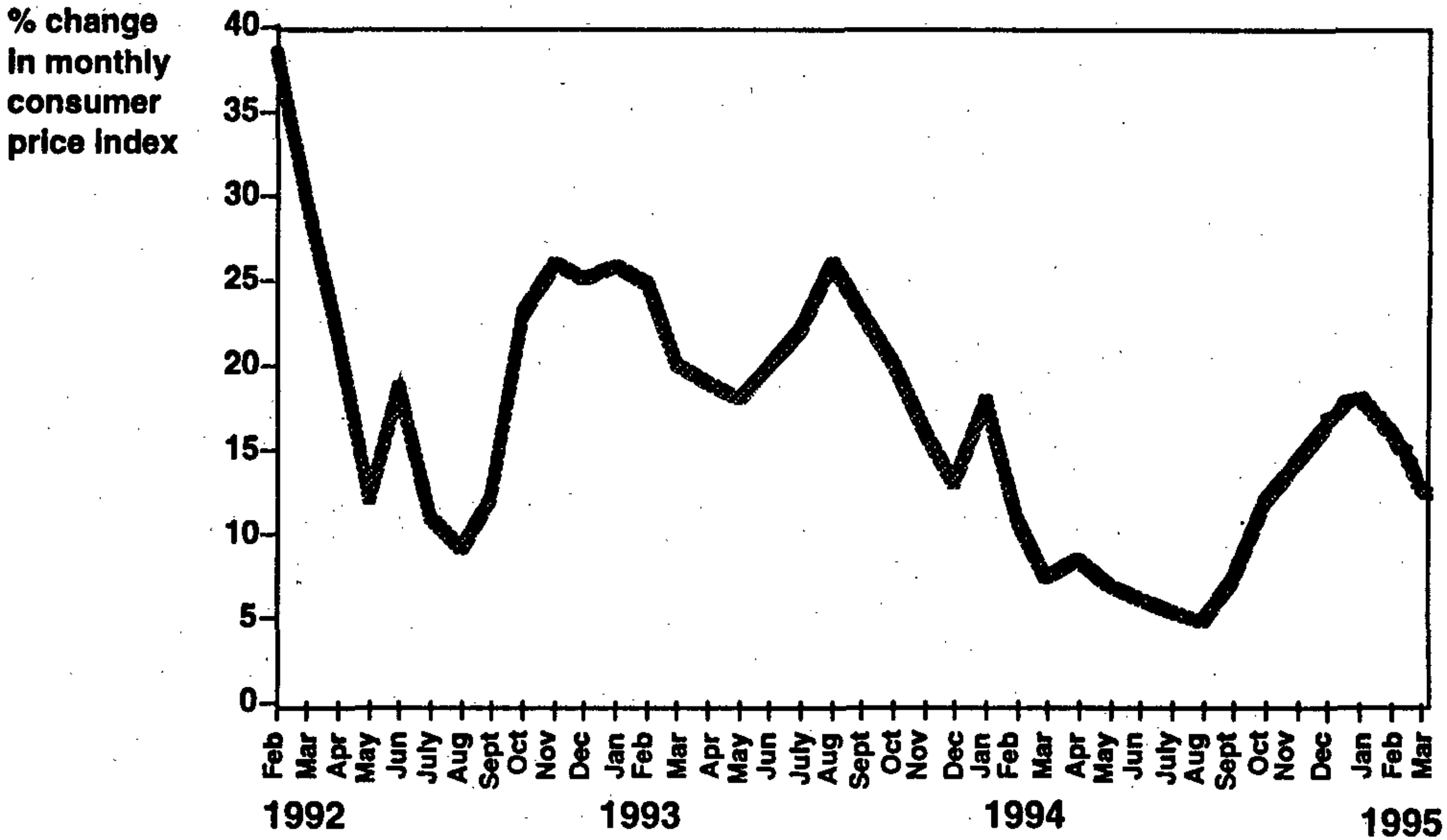
(1) Land mass reduced by 1/3 for uninhabited areas (Yakutia, Krasnoyarsk, Chukotka)

GROWTH TO RESUME BY 1996 AND PROJECTED TO CONTINUE DURING THE REST OF THE 1990's



Source: Bank of America, Country Data Forecasts

INFLATION IN RUSSIA CONTINUES TO BE A KEY PROBLEM



Source: Russian Centre for Economic Reform, Goskomstat

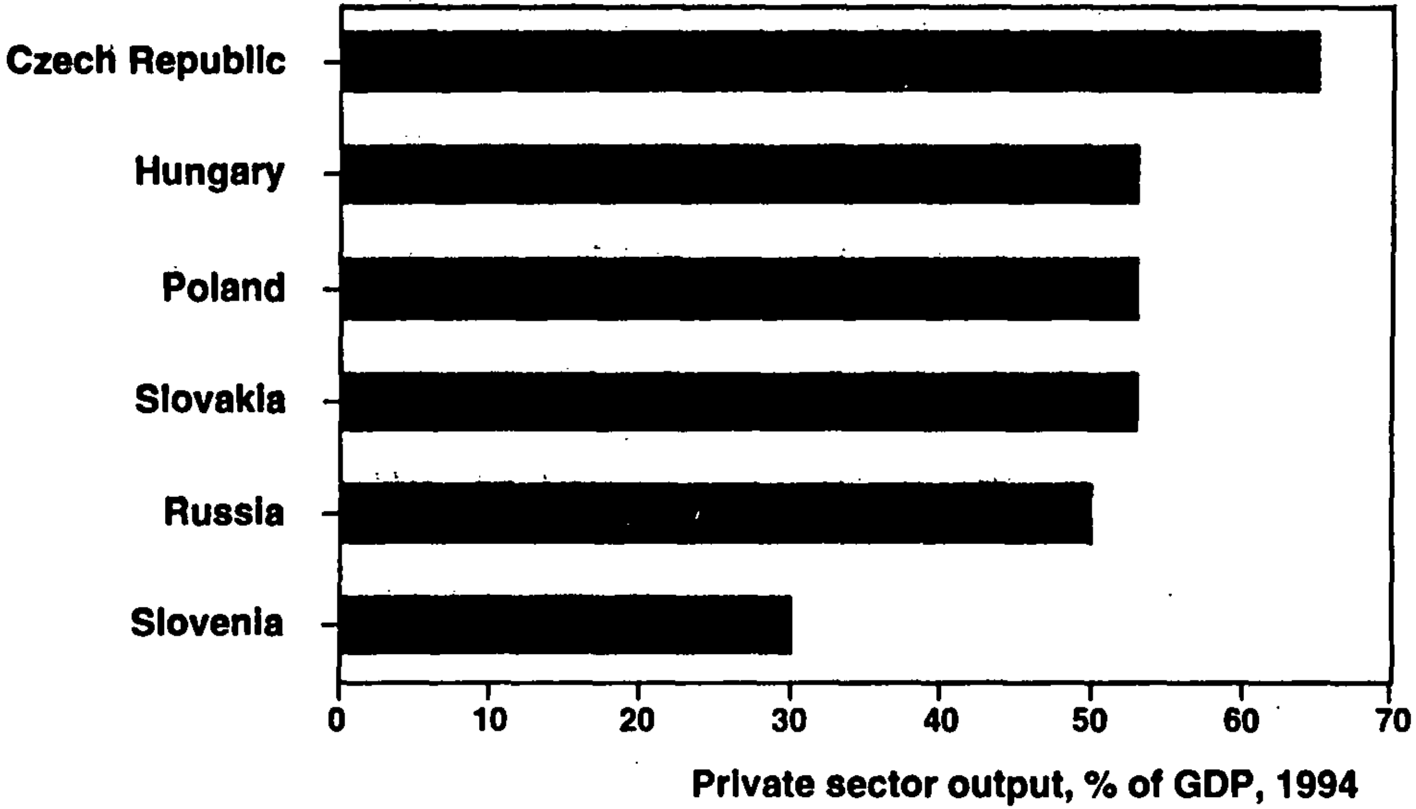
PRINCIPAL MACROECONOMIC INDICATORS HIGHLIGHT THE BUDGET DEFICIT AND INFLATION AS THE KEY PROBLEMS

	1992	1993	1994	1995F	1996F
Real GDP Growth (%)	-19%	-12%	-10%	-2%	2-3%
Fiscal Deficit (% of GDP)	-15%	-9%	-10%	-10%	-8%
Annual Inflation (%)	2500%	880%	220%	160%	100%
Trade Balance ($bn)	4.2	13.6	19.6	13.8	4.5
Foreign Debt ($bn)	79	88	96	105	112

Source: Business Monitor International

RUSSIA NOW HAS OVER HALF ITS ECONOMY IN THE PRIVATE SECTOR

Comparable To Fast Reforming Economies of Eastern Europe

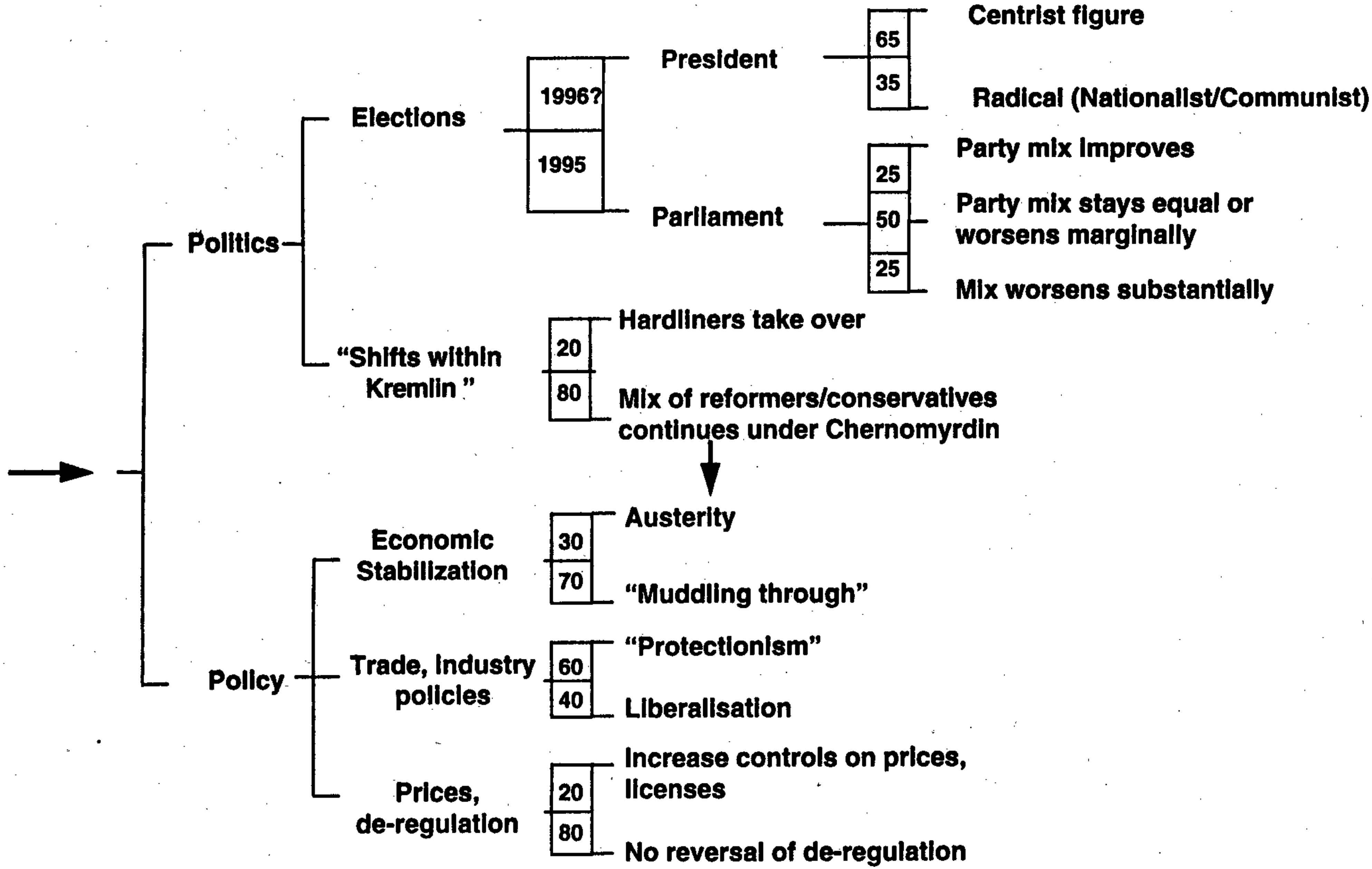


Source: EBRD

A NUMBER OF COMPANIES HAVE MADE MAJOR INVESTMENTS IN RUSSIA RECENTLY

Acquisitions	Joint Ventures
Danone	ABB (17)
Nestlé	United Technology / Otis
BAT (3)	IVECO
RJ Reynolds (3)	McDonalds
Philip Morris (3)	Grand Met
Rothmans	Coca-Cola
Henkel	Pepsi-Cola
Procter & Gamble	Caterpillar
AGA	National Oilwell
Siemens	**Major Greenfield Investments**
	Mars
	Philip Morris
	Coca-Cola
	Allied-Lyons

OVERALL POLITICAL SCENARIOS FOR RUSSIA



SOME CLARIFICATION OF PETROLEUM POLICY OCCURRING

Basic Open Issues Remain

Chahge Introduced	Open Issues
• Crude export liberalised *in principle*	• PSC legal basis • PSC counterparts • Transferability of licenses
• Law on natural monopolies likely to be passed	• Allocation mechanism - position of JV
• Domestic crude prices liberalised	• Retail/wholesale margins • Licensing of new gas stations
• Constitution clarifies responsibility for subsoil	• Unclear local/federal responsibility in licensing process etc.

A SIGNIFICANT SHARE OF LICENSES HAVE BEEN AWARDED TO INDEPENDENTS AND JV'S

[illegible]	Exploration licenses		Combined exploration and production licenses		Production licenses	
VICs	88%	16%	64%	12%	69%	29%
Rosneft companies		8%		49%		33%
Roskomnedra companies		66%		5%		4%
Independents		10%		28%		16%
Foreign and Joint Ventures		2%		8%		15%
Total	51 licenses to 13 companies		100 licenses to 23 companies		137 licenses to 34 companies	

Source: Roskomnedra 1/9/93 to 1/7/94

SENIOR MEMBERS OF GOVERNMENT COMMITTED TO INTRODUCING WESTERN STYLE REGULATION

Plus draft law in DUMA

Agencies will regulate natural monopolies, including oil pipelines

Government currently defining

- **Status of the agency**
  - **Independence from general administration**
- **Appointment/removal of key regulators**
- **Profile of key people**
- **Decision making processes and transparency**
- **Scope**
  - **Tariffs**
  - **Access/allocation**

LIKELY FUTURE INDUSTRY STRUCTURE (I)

3 + strong large vertical players in oil

- Expansion into neighboring countries
- Downstream operations extending across Russia

Rosneft will emerge as a major operator, with a role in PSCs

- Major PAs, refineries, and G&G companies

Additional VICs, with problems of cohesiveness

A number of independent E&P companies

- JVs, former geological companies, de-facto independent companies within Rosneft

LIKELY FUTURE INDUSTRY STRUCTURE (II)

A number of independent refiners split off from Rosneft

- 1-2 greenfields

Transneft's regional subsidiaries will become fully owned

Most G&G, oil field services and equipment companies will be independent

- Consolidation reducing number of players and total capacity
- JV's with Western companies

Distribution/retailing monopolies will be broken up in most regions

CURRENT STATUS OF PRIVATIZATION AND OWNERSHIP STRUCTURE

[illegible]	State share (for 3 years)	Shares sold by now		Sales announced for 1995		Largest private shareholders	Expected state share at the end of 1995
		%	Method	%	Method		
LUKOIL	45% (48.2% voting shares)	7.4 6.4(1) 2 0.5	• Inter-regional voucher auction • Northern minorities • Employees • Cash auction	10 15	• Tender for foreign investors • Investment tender for Russian investors	Nikoil (3.5%) CSFB (2.87%)	~60%
YUKOS	45% (48% voting)	7 7(1) 2	• Regional voucher auction • Northern minorities • Employees		-	-	84%
Surgut-neftegas	45% (48% voting)	7.4(1) ~7 ~2 ~40	• Northern minorities • Regional auction • Employees • Investment tender	?	• Cash sale to Russian investors	JSC "Neftinvest" (40%)	45%

(1) Preferred stock