

Chapter 3.

ECONOMY – IN PRE-ELECTION TUNING MODE

3.1. „Economic Transvaal”

The current situation in the Russian economy reminds the notorious „Transvaal”. From the outside, everything looks quite impressive: the key economy indicators, and the „shopwindows of capitalism” – Moscow and other big cities – experience consumers boom.

In 2005 the income of the federal budget exceeded its expenses by almost 43% – the surplus was 1,536.8 billion RUR, or 7.5% of the GDP. The beginning of 2006 was even more optimistic. In accordance with the Federal Treasury House estimates, in January the inflow reached 468.8 billion RUR, while the budget expenses appeared to be twice as little – 244.3 billion RUR. January inflow of 2006 exceeded that of the previous year by 52% (not including 149 billion RUR received a year ago on account of YUKOS tax liabilities), and were 11.9% higher than the Ministry of Finance planned. Meanwhile, in October – December 2005 the budget received 39-46% more than in the end of 2004.

2006 Budget was developed with the assumed oil price of US \$40 per barrel, but in the first one and a half months of 2006 the oil price for Urals oil brand, by the Finance Minister’s Alexei Kudrin estimates, averaged US \$59. As a result the Ministry of Economic Development increased predicted growth of the GDP in 2006 from 5.8% to 6%.

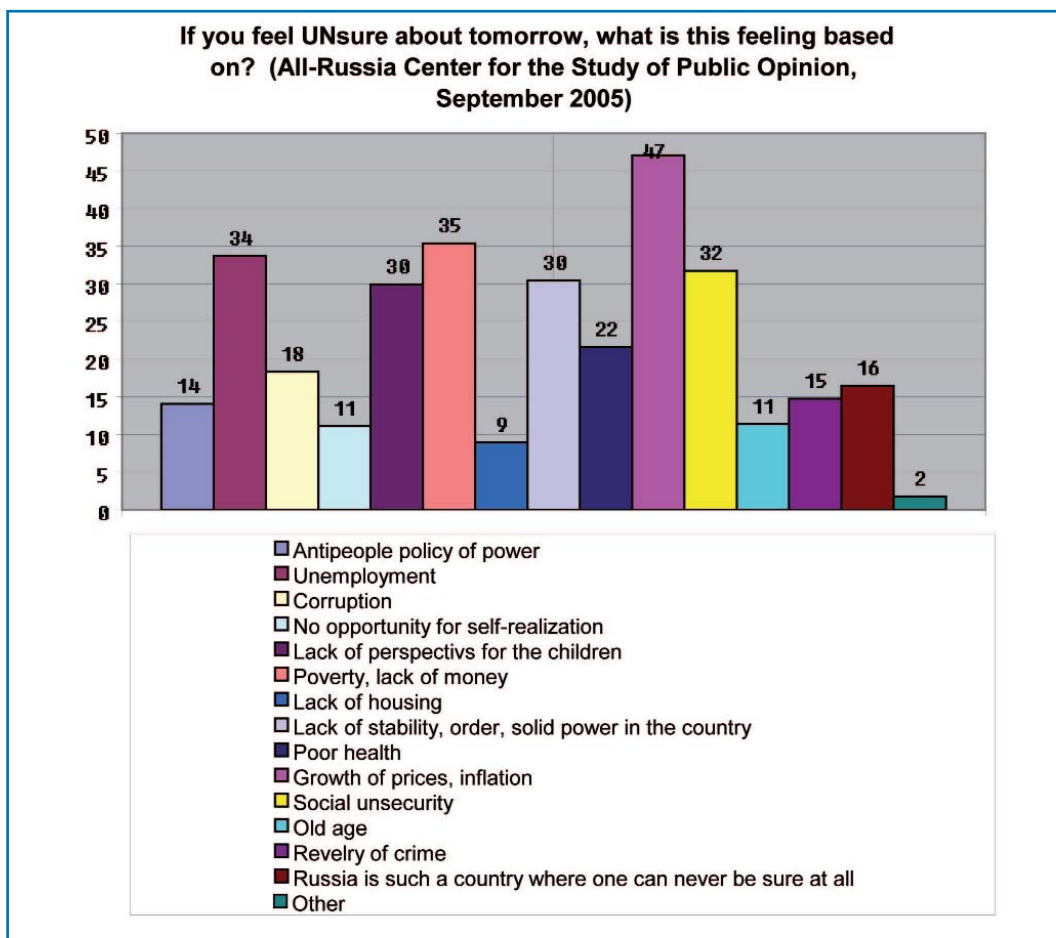
Russian economy is growing consistently for the seventh year in a row, and during all these years the oil prices in the world market were growing. In 2005, the GDP growth was 6.4%. This is just slightly below the average growth rate in 1999-2005 (6.7%).

Industrial production increased by 4% in 2005, which is, however, slightly below the figures for 2004 (at that time the growth was 7.4%). First of all it can be explained by the damping in oil-producing industry – the main „breadwinner” of the Russian budget. However the money accumulated by the representatives of oil and gas industries during the previous years streamed into the consumers market, where quite serious growth was observed. This is why about 2/3 of industrial growth were ensured by the companies working for rapidly growing internal consumers demand. As per the data of Central Bank, actual monetary the population’s income in 2005 increased by 8.8%.

At the same time, the lack of economic modernization and the number of painful political decisions forms the system of medium-term risks. At any moment one of the „columns” can collapse which will lead to the realization of catastrophic scenario. One should not be preoccupied with alarmism and overestimate our chances for the realization of dramatic events, but at the same time one should not ignore obvious problems which can short-circuit the inert scenario of development of the situation.

This statement is confirmed by the growth of protest moods in Russia. In early 2005 the reform on the replacement of natural benefits with monetary compensation was launched. This action of the authorities caused wide protest movement. A big number of the people eligible for these benefits came out on the streets and kept the power in tension for several weeks. They demanded to return to the old system of benefits. Finally, a part of their demands was satisfied: the amount of compensation payments was increased, and the plan of indexation of these sums was approved.

The reaction of people on the monetization of benefits had shown that the threat of large-scale protest movement is not an imaginary one. The authorities had to step back, thus giving the hope for effectiveness of public meetings and other mass events to various groups of population which may wish to solve their problems by way of pressurizing the State. One can say, that the basis for the expansion of protest activity was found. The people clearly saw that the method of efficient pressure on power does exist, and that Putin, being concerned about his rating, is ready to rebate.



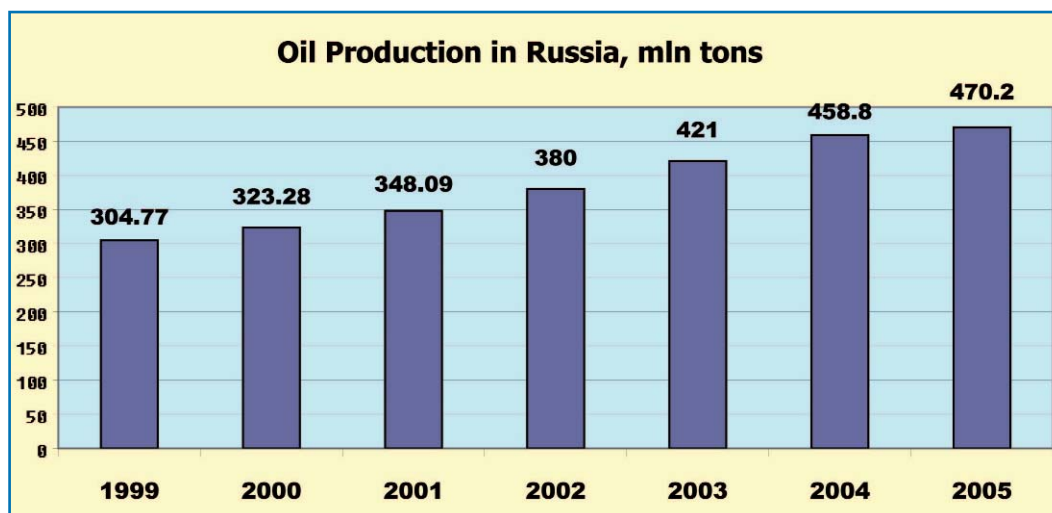
Growth of the protest potential is also related to the inflation growth, which is the cause of dramatic deterioration of the citizens' social status. This is additionally accentuated by the gap between the income of rich and socially insecure society strata. The dissatisfaction with the social policy of the Government of the RF, which has in its basis the principles of anti-crisis management and informational „promotion”, is growing. The first principle means that the social problems are being resolved only after the protest moods reach their critical points and it is no longer possible to ignore them. The second principle was most clearly illustrated by the national projects: the state leadership is trying to take off some part of social problems by means of promises in the course of informational and PR-actions, which will result (temporally) in decline of the level of protest moods, because people begin, at least for a period of time, to believe in the possibility of their status improvement. However in case of disappointment in these initiatives of the Head of the State the situation can deteriorate even further.

The social basis of the protest movements is very wide. It includes almost all the employees of the budgetary sphere, the vast majority of whom belongs to the category of the least socially protected people. This category of citizens found itself in this situation since early 1990th. Inflation and reforms continuously worsen their position because they depend on the „feed” from the state budget. On top of that, the educational system problems and the plans of its reforms turn the students to become potential „revolutionaries”.

3.2. Oil Prices and the Problem of Stability of the Russian Economic Model

The economic well-being of Russia is based, to a significant extent, on the high global oil and gas prices. In 2005 the energy economy of Russia was the source of more than 40% of the total GDP growth, 29.8% of industrial production growth, up to 59.5% of export income, up to 42% of tax receiving of the federal budget and up to 42% of all investments (these figures will further increase after the final results of 2005 are summarized). One should specifically note, that these are the high world oil prices which are the source of the Stabilization Fund, and by the end of the year the Stabilization Fund reached the amount of 1.5 trillion RUR, with the budget of 3.3 trillion RUR, and considering US \$15 billion of prepayment to the Paris Club (for January 1, 2005, the Stabilization Fund was 522.3 billion RUR). Gold exchange resources, according to the financial results of the year, reached US \$175 billion (at

the beginning of the year – US \$124.5 billion), and the budget surplus, with its major part also formed for account of oil dollars, was 1.4 trillion RUR. Thus the basis of the Russian economy today is its fuel and energy industry. With all of this, the inflow of oil dollars gave the Russian authorities the possibility to dramatically increase the expense section of the budget, which in 2006 will exceed 5 trillion RUR (in 2005 – 3 trillion RUR). As per the Ministry of Economic Development estimates, if in 2006 Urals oil costs in average US \$55 per barrel, the economy will grow 6.2%, and if it costs US \$51 – by 6%. But if in 2006 the oil price goes down in value to US \$27 per barrel, then the GDP will grow by only 3.9%



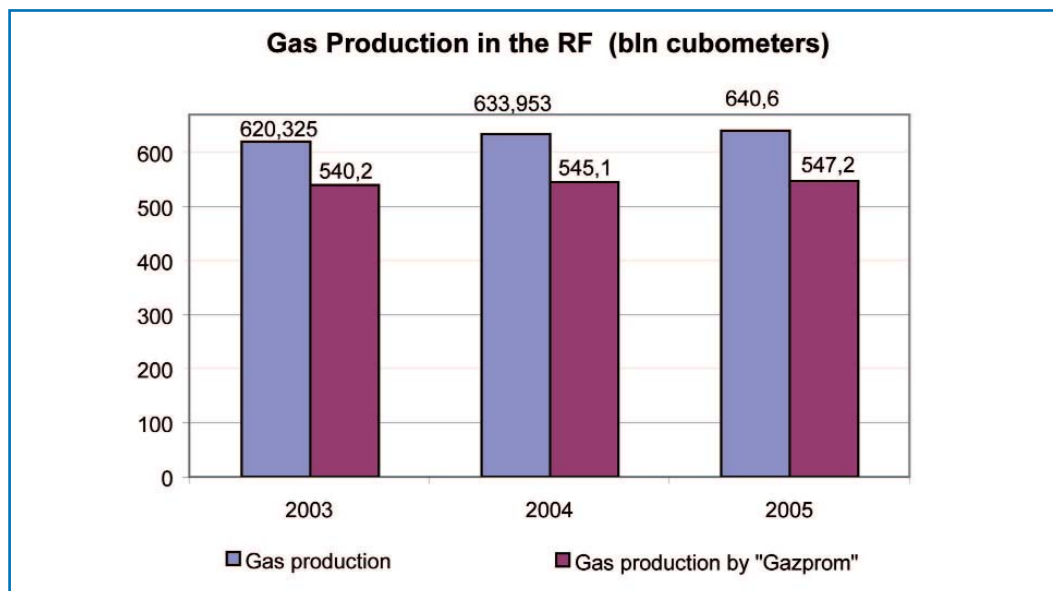
Oil production in Russia, mln tons

	2005	2004	Change %
TOTAL	470,196	458,808	2,48
LUKOIL	87,85	84,1	4,5
TNK-BP	75,35	70,26	7,2
Rosneft	74,4	21,599	244,5
Surgutneftegaz	63,85	59,6	7,1
Sibneft	33,0	33,98	-2,9
Tatneft	25,35	25,095	1,0
YUKOS	24,5	85,678	-71,4
Slavneft	24,15	22,0	9,8
Gazprom	12,85	12,0	7,1
Russneft	12,15	6,605	84,0
Bashneft	11,95	12,033	-0,7
Others	24,796	25,858	-4,1

Source: CDO FEC

The traditional problem of Russian economy is that despite of ultra-high world oil prices, it does not become more efficient and stable. Only the financial reserves of the country are being replenished, due to the efforts of Alexei Kudrin, they are not spent yet, but the economy structure remains the same. And in this regard this huge inflow of oil dollars even impedes the development of the Russian industry, because long needed reforms, as reality shows, are conducted only in the periods when the world oil prices are low.

Thus, the main factors of economic growth still are the rates of oil production and „black gold” export. However in view of many years of procrastination with solving the key problems in this branch of industry, the situation continues deteriorating. In particular, the dynamics of oil production in 2005 slowed down significantly compared to the previous years. So, if in 2001-2004 the growth rate of hydrocarbons production was 8-11% per year, in the first seven months of 2005 the overall oil production in Russia increased by only 2.48% compared to the same period of the previous year. It is hard to believe that the growth of oil production in 2006 can exceed 2-3%, especially considering that in the near future Russia can face the decline of absolute indicators in this sphere. The situation in the gas sector seems to experience similar problems with the gas production increase by only 1% in 2005.



Considering that in 2001-2004 the growth rates of hydrocarbons production were 8-11%, the GDP growth in these years did not fall below 6-7% per year. But the growth rates of oil production at the level of 3-4% per year can give not more

than 4-5% growth of the GDP. It is unlikely that the official statistics lets the GDP fall down to such a low level (although in reality one can predict these perspectives), however even the official figures provided by Rosstat (Russian Statistics) make it possible to identify these unfavorable economy trends.

So, as per the data of statistical service at Fradkov cabinet, during seven months of 2005 the annual GDP growth was 5.7%, which is significantly less than 7.7% annual GDP growth which had been achieved in seven months of the previous year. With this, the figures of the last two months can really cause concern – the rate of industry growth, which was 6.9% annual GDP growth in June, in July decreased to 4.9% annual GDP growth. Moreover, as per the MEDT data, a similar situation occurred in the production of all goods and services, and not only in the industry. After the record GDP growth rates in June (6.7% per year), the growth in July slowed down to 6.4% (dramatic contrast with the growth rate in July 2004, when it reached 7.9% annual GDP growth). However in July GDP increased compared to June – by 0.7%.

Economy continues growing due internal demand which is supported by the money coming to the country due to the export of Russian hydrocarbons. However as far as the government has not even taken any attempts to correct the situation in the domestic industry, the **growing demand is still being satisfied with imported goods**, which is best demonstrated by the statistics of sales of Russian and new foreign cars. So the sales volume in dollars in the first six months of this year increased by 30% – to US \$10.4 billion. The components of this figure are as follows: in the first six months of 2005, 381,000 of Russian cars were sold, which is 14% less than in the first half of 2004, 51,000 cars assembled in the foreign assembly factories in Russia, which makes 2% of growth, while the import of new foreign cars was 225,000 cars, which by 80% exceeds the figures for the same period of the previous year. We will specifically note, that in the first six months of 2005 the sales of foreign cars on the Russian market exceeded 75% of the total market volume in dollars equivalent, although in the numerical equivalent Russian cars still predominate.

The figures of **growth of agricultural products import** are also an area of special concern. Here one should note that the government has got all the tools to support the Russian manufacturers, however nothing is being done in this regard. For example, Fradkov's cabinet could have planned the minimal sums of grain investments for 3 years ahead which would allow to prepare the budget for this period of time. It was also possible to simultaneously organize tax and crediting benefits for the agricultural sector. However at the moment the credits are still not affordable for the farmers, because the share of income in the agriculture dose not exceed 6%, while the bank interest for credits is not less than 15% annually. **Thus, macroeconomic results of 7**

months of 2005 bear the evidence of increasing negative trends in the Russian economy and inactivity of the government, allowing to suggest that the situation is unlikely to change in the long-term perspective.

One should specifically mention the acuteness of the problem of inflation which can bring down to zero all the national projects of Vladimir Putin proclaimed on September 5, 2005. Thus, the government can not come to terms how to combat it. This argument has been continuing already for 2 years, during which the prices for petrol inside Russia have already increased by more than 60%, and annual inflation rate is again exceeding the forecasts of the Cabinet of Ministers.

The most notable example of the fight of Fradkov's cabinet against inflation in 2005, is the story of presentation to the government of the united anti-inflation plan of the Ministry of Finance, the MEDT and Central Bank (CB). Practically it consists of two parts – the suggestion of Gref and suggestion of Kudrin supported by the CB. According to the tradition, the MEDT insists on the increase of the state expenses to stimulate production growth. The Ministry of Finance (MinFin) and the CB, on the contrary, advocate for the decrease of state expenses: they suggested to also add export taxes for oil and its products and gas to the Stabilization Fund. In other words, to fight against inflation, the MEDT suggested to use anti-inflation effect of „economy of supply”. Specifically, as per the ministry estimates, with the increase of social expenses by 1% of the GDP, inflation will grow by 0.6-0.7%, and gross product – by 0.1-0.15%. While if the budget investments are increased by 1% of the GDP, inflation will increase by 0.3-0.4%, and the GDP will grow by 0.2-0.3%.

However, simultaneously the withdrawal of money from the market is being suggested – but not by means of increasing the state incomes, placed to the Stabilization Fund, but by means of accumulation of savings (which can, in turn, lead to the increased investments). By the opinion of the MEDT, the citizens can be motivated to invest money in financial assets by the increase of the sum of insurance compensation for the deposits of physical persons from 100,000 RUR to 200,000 RUR or the emission of bank papers for the people. It is also suggested to establish fund shops where the citizens could purchase the securities in retail.

The suggestions of the MEDT listed above are followed in the document by the suggestions of the Ministry of Finance and the CB. These two, as one could expect, are quite opposite to Gref's initiatives. Specifically, the Ministry of Finance provides the arguments against the increase of the state expenses. In contrary, to his opinion, it is necessary to withdraw the money from the economy and place them to the Stabilization Fund which should not, in any case, be spent for the investments, but should be spent only for the repay of foreign debt ahead of schedule. Finally, *the*

Ministry of Finance and the MEDT were able to come to the agreement just on one section which says that the growth of the population's income is inevitable, but they must invest every extra penny in the economy, or rather the government must economically motivate them to do this. The solution for this issue was found quite in the style of administrative struggle. In particular, it was suggested to start selling to the people the shares of Rosneft, Gazprom and other big state companies, while putting temporary limitations for their external loans. Summarizing, the government has no united plan of the fight against inflation, and as a result of this at the end of the year it will exceed the last year forecasts and will be minimum 11.5%.

In the other words, Russian economy exists in some sort of drift: mining industries are stagnating, and only the sectors not-competing with the import are growing (building, trade, real estate, and processing industries). In this situation the government can neither fight down high inflation, nor can it cope with the decreased rate of oil production. As a result the decision was made to refrain from radical market reforms in the proximate future. Taken together, all these facts give the possibility to conclude that despite high budget surplus, the Stabilization Fund and gold exchange reserves, the situation in Russian economy is still extremely difficult. The mainframe industries are in a serious crisis, however the government does not start to solve their problems for political reasons. In this regard the crucial question of Russian economy remained unchanged, basing on 2005 year results – whether the oil prices fall or not, and the year itself became one more year of lost opportunities for modernization of the country's economy.

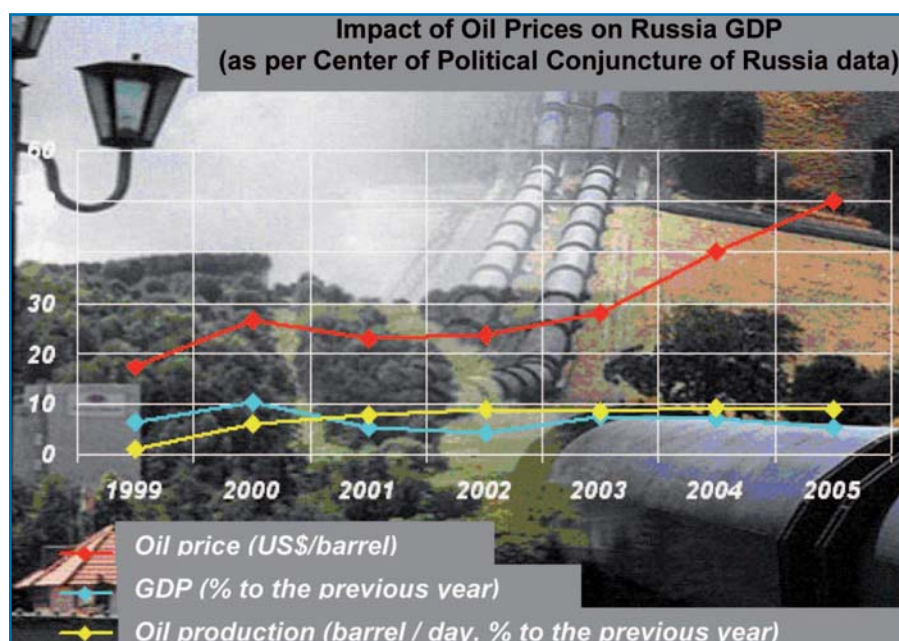
Besides this, ***Russian economy is still dependent on the world hydrocarbons prices. But no one can guarantee that the period of high oil prices will last for another several years.*** Oil prices are to a large extent determined by stock exchange scavengers (primarily, on three leading trading platforms – New York and Singapore commodity exchanges (NYMEX and SIMEX) and London oil exchange (IPE). ***Oil prices today are the product of manipulations, and not the crossing point of the curves of joint demand and joint supply.***

As a result, one can not exclude that oil prices are willfully blown up by the USA administration. America is interested in high oil prices which can bury the economy of China – the main geopolitical opponent of the United States. The pressure by means of stimulation of ultrahigh world oil prices is a key factor of opposition between the two superpowers. The USA, in turn, do not suffer significantly from high world oil prices because they are the third largest oil producer in the world. Besides this, the taxation system in the USA works in such a way that the raw oil price is higher than in Europe, but petroleum price, which is important for the final consumer, is significantly lower. But ***as soon as the USA feel that China has already suffered***

a sensitive blow, and further growth of oil prices poses a serious threat for American economy, the USA will rapidly achieve the decrease of world oil prices. The reserves accumulated by Russia will ensure that the events of 1998 will not happen again. Full-scale economy crisis in Russia before 2008 is still a scenario of low probability. However the situation in the economy will worsen. It will not make it possible for the executive power to implement the populists programs of increasing the salaries to the budgetary sphere employees and finance the so called national projects, designed to demonstrate to the people the realism of economic breakthrough in Russia. The consumer boom observed in Russia in the second half of 2005 will fade away. This will have a negative impact on the status of society. Besides that, one will have to finally accept the impracticability of the project of the GDP doubling by 2010, because even under the conditions of extremely high oil prices the growth rate of the Russian economy is not that impressive – the most optimistic forecast for 2005 is 5.5-6% growth.

3.3. Depletion of Main Natural Assets – „A Delayed Mine”

The issue of main concern is the fact that even with high hydrocarbons prices in oil and gas industry – the main „breadwinner” of Russian budget – the signs of stagnation are being observed. The distinguishing feature of 2005 was a sharp slow down of the growth rate of both oil and „blue fuel” production.



The reason for that is the depletion of main oil and gas deposits. The RF is still one of the leaders in hydrocarbon deposits, but the extraction of resources is not accompanied with their replenishment. Russian private and state companies working in natural resources industries are continuing to actively exploit the deposits found back in the époque of the Soviet Union. In the previous year it became obvious that this modus operandi can not continue any more, and in the very proximate years one can expect the significant decrease in such basic industries as oil and gas production.

This fact has become quite obvious a long time ago for the specialists in this industry, who are aware that no single large deposit was found in Russia in the recent decades, because the finances allocated in the state budget for this purpose were very scant, and private resource consumers did not take a risk of investment in the exploration because they had no guarantees that they can secure and privatize their newly discovered deposits. Inadequate financing for the geological exploratory works has led to the situation when the growth of natural resources is less than the volume of the mined resources. Thus, in 2004 oil production was 400 million tons, and the growth – only 300 million tons. In this regard, in accordance with the forecasts of the Russian Academy of Natural Sciences, until the year 2025 the explored resources of oil, gas and lead will be practically depleted. The explored resources of diamonds and gold can be completely depleted already by 2015, and in another five years, without additional exploration, the resources of silver and zinc will be depleted (one should consider that the discovery of new deposit takes up to 10 years). As per the Ministry of Nature estimates, the oil resources in rentable locations will suffice until 2015, and for replenishment of mineral-raw materials resource in the next 15 years the investments of 2.5 trillion RUR are needed. Out of them only 260 billion RUR are planned to be taken from the budget – the rest are to be invested by the resource consumers.

The reason for disregard of the number of key industry-specific problems are political factors. As it was already mentioned on several occasions, Russian Fuel and Energy Complex (FEC) by definition is located in the very center of political conflicts, whose goal is to bring the resources of this most profitable branch of the Russian economy under control of one of the influential NPGs. For a number of reasons the current owners of Russian oil and gas companies can not feel themselves secured from the elite groups yet, because the resources of governmental administration give the possibility to some officials from the immediate surrounding of the President to redistribute the property in their own favor quite efficiently. So, the main shareholders of Russian oil and gas companies do not take a risk to make significant investments either in geological explorations or in the production of natural resources, and thus the situation in this industry progressively worsens year to year.

The result of uncertainty with regard to the presence of foreign oil and gas companies in Russian Fuel and Energy Complex in the context of obvious insufficiency of material, technical and human resources of the Russian state oil and gas companies was that in the recent few years no large projects on the minerals extraction were initiated in the Russian fuel and energy complex, while the traditional deposits of oil and gas were significantly depleted. Moreover, continuous conflicts within the elite result in the postponement of decisions on the construction of new export channels of Russian oil and gas, which is another important factor contributing to the slow down of the rate of energy production.

Thus, from the economic point of view, it is hard to explain why the project of the Northern pipeline is still not implemented (Northern Project design assumes the development of traditional region of oil and gas production – Western Siberia – with the only difference that the products will be exported not to the European but to the American market). The main lobbyist of this project is LUKOIL which is closely related to the „legal” section of Gazprom. Gazprom itself had made a stake on the American market long ago, and from the middle of this year started exporting the Northern Project to this market. However the representatives of the „siloviki” actively oppose the implementation of the Northern Project, because they have agreed with China on lobbying the Eastern pipeline. As a result none of these projects is being implemented into practice, the adequate solutions for the problems of industry are not found, and all the market players continue losing their profits.

Thus, the uncertainty of the behavior strategy of Russia in global energetic situation, which is further complicated by the „split” within the Russian elite, results in negative consequences for this branch of industry.

This is obvious from the analysis of the status of foreign investors in Russia. Russian Oil and Gas Companies (OGC) do not have advanced international technologies of hydrocarbon production, and do not have sufficient financial resources necessary for the implementation of wide-scale projects. For this reason, they would better support the presence of foreign oil companies in Russia, especially considering the fact that the foreigners are ready to come to the Russian market in spite of all existing problems.

However the legislation „On Entrails” presented to the State Duma, in couple with the main propositions of the bill about foreign investors currently under development bear the evidence that both the „siloviki” and the „liberals” are doing their best to limit the presence of foreign oil companies in Russia, probably, because of the fear of competition. In particular, they are trying to use all available methods to limit the rights of foreign investors, and de jure ensure that only Russian companies have the right to

develop the best mineral deposits. As a result the Russian oil and gas industry does not receive not only new export routs, but also foreign investments and technologies.

All these events take place in the situation of forthcoming year 2008, when the destiny of the current Russian elite will be determined. Each of the groups belonging to the closest President's surrounding is trying to suggest to the President their scenario of the project „Successor-2008”, and each of the NPGs is already now trying to get under their control the maximum resources for the realization of their goals in accordance with their scenario. Thus, without having determined their own rules of the game in the Russian Energy Complex (if they had done so, they could practically plan to resolve the number of industry-specific problems), contemporary political elite is starting the new wide-scale project, whose implementation requires significant resources and time, which makes the chance of resolution of at least some part of the problems of the Russian energy complex absolutely minimal.

The fall of oil and gas production rates poses Russian economy and political elite at risk of some additional problems. Specifically, the decrease of oil production rate in couple with the growing demand, in the proximate future can result in further growth of prices for oil, oil products and gas, because the major part of energy produced by the OGCs is being exported. In this regard, the miserable condition of internal fuel market can deteriorate even further. By the way, the problem of petrol price growth in 2005 also had not been resolved. At the same time, the government of the RF gave way to the blackmail of the oil companies with regard to the petrol prices. After the price for petrol in Russian increased by 1 ruble in September, the oil companies suggested to the Fradkov Cabinet the action of „social responsibility” – to freeze the retail oil price for half a year. However the cause of this step remained unclear, because in winter the demand for petrol is minimal anyway, and the prices are growing very slowly. The oil companies just did not lose the opportunity to smartly play the PR-card and, at the same time, keep high prices. All these events occurred on the background of sufficient amount of oil on the domestic market. However when oil becomes a deficit product, the situation can worsen significantly and result in the sharp increase in the prices for petrol and, subsequently, in the massive actions of social protest. It is presumed that this scenario can be realized as soon as in 2-3 years.

3.4. Structural Reforms: the Damping Process

On the example of the course of reforms in three Russian monopolies – Gazprom, RAO UES of Russia (Joint Stock Company Unified Energy System of Russia) and

RAO Russian Railways (Russian Railways) – one can clearly see the extent of dependence of the Russian economy on the policy of the ruling elite. Because all of *the most important bureaucracy and principal organizational decisions in relevant industries in the recent five years had been taken with direct participation of Vladimir Putin and the individuals from his immediate environment – the leaders of different nomenclature political groups*. As the examples, one can mention the virtual refusal of the liberal reforms in the gas industry, the reforms of the former Ministry of Railways and significant changes in the principles of reforms of Russian electric power industry.

In the mid-2005 the next package of decisions regarding these monopolies was approved, which was the consequence of both the approaching annual meetings of the stakeholders of the three above mentioned companies, and Moscow energy crisis of May 25, 2005 – notably, both the advocates and the opponents of the reform tried to use this crisis in their own interests. As a result, the President decided to keep Alexei Miller and Anatoly Chubais at their positions, and Gennady Fadeev was replaced by the protégée of Igor Sechin – Vladimir Yakunin. These organizational changes meant the following: there will be no reform of Gazprom, and the „siloviki” will not control Gazprom completely. The reform of Russian Railways (Russian Railways) company will also not happen, but all the financial flows of this company will go under the control of the „siloviki” as the compensation for the refusal of former from the claims for Gazprom; the reform of RAO will be escalated, but Chubais will have to review his plans and take into consideration the interests of Gazprom.

These decisions were taken in a complex manner, because the organizational and financial situation in these monopolies is not the last reason of the emerging disbalance of the elite, which is not beneficial, first of all, for Vladimir Putin himself. In this regard, when financial interests of different NPGs confront with each other, the President has to take strict decisions. And the President takes into consideration the interests of his own political security and stability of the elite strata, trying to maintain the interelite balance in his immediate environment.

For this reason one should not be surprised, that political elite is not too much concerned about the problems in the specific subject areas of relevant monopolies of Russian economy, the situation in which worsens every year. As an example one can mention the fact that since 1998 Gazprom has not increased the limits for gas consumption in Russian domestic market, while the demand for it increases every year at quite a significant rate.

The situation in electric energy industry is not better: as it was demonstrated by Moscow energy crisis, the reform has not improved the situation, but partially

worsened it. In the Russian Railways company the situation is also developing not as well as it could – with continuously growing costs, the railway monopoly continuously worsens the quality of services and virtually prevents the development of the private sector. All these facts taken together result in the situation when the basic branches of economy remain non-market, too bureaucratized and too closed to the other market players.

The last fact is clearly confirmed by the history of reforms of RAO UES of Russia in the recent one and a half year, i. e. since the time when RAO found itself in the sphere of interests of Gazprom. Initially, in order to not allow to enhance gas monopoly in the share capital of the structural units of electric energy monopoly, top management of RAO took a decision to significantly shift the time of sale of wholesale power generating and territory generating companies – the step which substantially decreased RAO capitalization and simultaneously devaluated the investments of Gazprom in the stocks of RAO and its' daughter enterprises. Then RAO top management took a decision to consolidate four hydro-OGCs into one and leave its' controlling stake for the State. Thus, the team of Anatoly Chubais tried to resist the penetration into RAO by the capture of the majority of Gazprom assets, and in order to achieve this goal, it virtually rejected the goal of reform itself – creation of genuine competitive market of electric energy.

However Anatoly Chubais did not succeed. The only thing he can be proud of, is that he preserved his place, and not the last reason for that was that one year ago he choose to fire from the monopoly the people most close to him, who could, in the future, replace him in his current position. In 2005 this trend occurred again. This time the financial director of energy holding Dmitry Zhurba announced about his retirement, and this was the third serious organizational loss of RAO during the last year.

Anatoly Chubais became the head of RAO UES of Russia in 1998 in order to ensure its innovation. For this purpose, he had to form a team from scratch, because he was not well accepted in Gazprom itself, and RAO in 1990 really lacked professional economists and managers. Almost immediately following the invitation of Chubais Valentin Zavadkov came to RAO from the Federal Commission on Securities (FCS), the other valuable acquisition was Mikhail Abyzov, who was 25 years old at that time. Then Chubais invited Leonid Melamed and his deputy Dmimtry Zhurba. One after another, Yakov Urinson, who was former Vice Prime Minister at the time when the head of RAO took the chair of the First Vice Prime Minister, and ex-chairman of the Bank of Russia Sergei Dubinin, with whom Chubais collaborated during the default of 1998, came to RAO. By the middle of 2005, virtually no one of

that initial team stayed in RAO, and the peak of retirement took place right in the last year, when Gazprom started actively trying to frame Anatoly Chubais. Specifically, a year ago the energy monopoly was left by Melamed, a month ago – by Abyzov, and several days ago – by Zhurba.

There is an opinion, that Abyzov and the other managers preferred to leave Gazprom before they were fired from it. However it seems that this is only partially true, and the main reason are the concerns of Anatoly Chubais regarding his position and his unwillingness to bring up the competitors. In this connection, the retirement of the head of Mosenergo, the most close companion of Chubais, Arkadii Evstafiev, replaced by Anatoly Kopsov, looks very meaningful. In this regard one should mention the first actions of the new head of Mosenergo.

Here we are talking about the start of his negotiation with Gazprombank about the use of credit for a total of US \$250 million for the construction of missing generating facilities in Moscow energy zone (Mosenergo is going to borrow another US \$250 million in the European Bank for Reconstruction and Development [EBRD]). Gazprom condition for giving the credit is the right of property for the assets which will be built for this money. Taking this into account, Gazprom can further increase its' share in Mosenergo, by exchanging the investments for additional stocks of this energy company, will increase its' share in Mosenergo to 37%, while the stake of RAO itself will decrease to non-controlling. Considering that Gazprom has got more than 10% of RAO UES of Russia joint stocks, it can increase its share in Mosenergo to approximately 47%. Thus, ***the monopoly has a chance to get control over the energy system of Russian capital, and it will still have sufficient resources to get additional assets in the process of RAO restructuring. The reform of energy monopoly itself, considering this interest of Gazprom, will become purposeless,*** because after the State leaves the industry, the state Gazprom comes instead. These events do not improve the situation, but make it even worse.

Anatoly Chubais can hardly compete with Miller, because unlike the latter he does not belong to the immediate surrounding of the President, and is forced to mask his own interest with the care about the industry. However his concept of reforms causes criticism, and Moscow energy crisis gave Gazprom a good excuse for the „attack” which was approved by the President. As a result of this opposition gas monopoly succeeded in strengthening its positions, and Chubais, in turn, had to fire Arkadii Evstafiev. However it did not improve the situation in the industry. And even the fact that the new head of Mosenergo started his carrier from looking for the money for building new production facilities, does not bear the evidence that the situation is improving. The economy of Moscow is growing at a very high rate, and such

investments are to be involved every year, while the resources of Mosenergo are rather limited. *Thus, the liberal reform in RAO is getting more and more features of further strengthening the positions of the State in this industry. This is expressed in the attempts to get control over the monopoly by the other NPG belonging to political elite.*

The situation in the Russian Railways does not look better. No dramatic changes had occurred after the appointment of the new head of the Russian Railways Yakunin, and the occurring changes are not even mentioned anywhere. The Russian Railways is still vertically integrated and not efficient structure which is continuously trying to „shove” unprofitable passengers transportation to the State instead of taking any attempts to make them profitable.

Housing and communal services sector is one more of four Russian monopoly industries, which still belongs to non-market sphere of economy. With this, despite the wide-spread opinion, in developed market economies (first of all, in the Western countries), it is not considered to be an important criterion of economic growth, because it can not develop independently year to year. The subjects of this market just execute their social and economic function, i. e. they provide high-quality and not cheap services to the people.

In Russian housing and communal services sector one can identify several key problems. First of all, one should note dramatic wear and tear of the primary assets, which, in accordance with the data of the Federal Agency on Building and Housing and the communal services sector, in accordance with the results of 2004, has reached in Russia the level of 60-70%, and in some regions was as high as 90%. With this, *the housing and communal services sector is in the competence of regional authorities, i. e. the federal center is just transferring the needed sums of money to the regions, and it is the responsibility of the regions to spend them. One should note that the regions still have the right to deposit the budget money with commercial banks*, and the Ministry of Finance is not able to follow up the flows of money it transfers.

Monopoly in housing and communal services sector means the procedure of tariff forming in accordance with well-known expense principle when one needs to overstate the expenses in order to have the tariffs increased, which is not difficult to do under the circumstance of wear and tear of assets, and when the process of spending the state money is not transparent. As a result of this, the tariffs are increasing from year to year (moreover, they are set by the regional authorities without the approval of the Federal Center), while the quality of services is decreasing.

The other important problem of the Russian housing and communal services sector is that *the major part of the population is not able to pay for as little as 50%*

of the housing and communal services due to the low level of income of the Russian people. As a result, according to the data of RAO UES of Russia up to 10% of the population do not pay for electric energy, while the costs of electricity are the smallest burden for the personal budget in the list of all communal services. It is not surprising that the share of private business in the structure of housing and communal sector of Russia is just 17%, out of which just 1% belongs to foreign capita; (according to the data of the Federal Agency of building and housing and communal services). Moreover, the private business goes only to the new sector of the housing and communal services, in the newly built housing in the cities with the population exceeding one million people, trying to make money on the citizens with high level of income only. It happens because private business understands that it is not profitable to invest in the projects where the main consumers are the citizens with the monthly income within the cost of living (about 50% of Russian population).

The crucial problem here is that *in the structure of executive power there are no specifically assigned officials responsible for the change in the situation* and who would have sufficient resources to change the situation. The departments formally responsible for this task (the Ministry of Regional Development and the Federal Agency on the building and housing and communal services) are not doing this job seriously. They are just saying right mottos every year, but in practice they prefer to „utilize” available resources and attribute the problems to the general economic problems. This situation reminds the attitude of Russian elite to gas and oil industry: we do not want to do anything, let it work as it used to. I. e., they have a groundless hope for the decrease of the tariffs growth rate accompanied by efficient development of the State monopolies.

It seems that the complex of measures is necessary to change the situation dramatically, and the logical first step would be to assign a specific officer and empower this officer with the state-level rights, federal powers, which would let him, without starting the disputes with the regional authorities, push them to the transition from vicious practices to economically efficient ones, for example, to make the regions to refuse from depositing the State money with commercial banks, and to be able to introduce this refusal to the Budget Law. After this, *it would make sense to establish the control over the tariff formation which should be brought to the federal level* as the only realistic non-monetary way for the federal government to fight with inflation.

However the latter measure can not be suitable for the federal government which did not use to take the responsibility, and will be happy to leave the situation as it is as long as it gives the possibility to the members of the Cabinet of Ministers to solve their specific administrative issues, which are, according to tradition, more

important for them than the industry-specific issues. One should also note that *by attracting the private investors in the industry, the government expects to not just increase the share of private sector in the housing and communal services sector, but also to delegate the responsibilities of the State to these private investors*. Thus, the government suggests the private investors to perform, at their own account, capital restoration of the infrastructure objects which can be easily attributed to strategically important state objects. Meanwhile, the President in his Address to the Federal Council appealed this spring to limit the influx of foreign investors. In general the idea of shifting the state responsibilities on the private investors or the citizens themselves is rather a characteristic feature of the governmental policy of all the recent years, which is clearly seen from new Housing and Forest Codes. The first one, for example, obliges the residents of apartments to take care of the condition of their houses themselves and to pay for the capital renovation from their own pocket. The Forest Code shifts the function of forests protection, fire extinguishing, restoration of assets etc., on the renters of the forest lots.

One can not expect that the situation in the housing and communal services sector will change, because nobody is actually involved into its solution, and even if the government and the President's Administration propose some measures, these measures are not consistent and are half-and-half in their nature. It is most likely that in a new budget once again there will be no measures included to prevent the „depositing” of the state money with in commercial banks, and tariff formation for the services of the enterprises of housing and communal services sector will remain the prerogative of the regional authorities. In this regard even the most actual problems of this industry will not be resolved.

The economic situation in the basic industries will stay as it is until the new elite comes to power. At least this is the only scenario one can rely upon when speculating about potential solutions of well-known problems of monopolies. However there is another reason to start the reforms in Gazprom, RAO and Russian Railways: this is significant deterioration of the situation in these branches of industry. Then the political elite will be forced to start looking for the way out of this situation. Meanwhile, it looks like the accidents related to extreme wear and tear of the capital assets will not change the situation dramatically, because years are necessary to implement serious reforms. And it is most likely that the actions which will be taken with regard to monopolies when the situation in them comes to a critical point will remind the work of unskilled fire fighters who are trying to extinguish the flame only – and not the fire hazard.

3.5. Nationalization and Privatization – Contradictory Situation with Property in Russia

Quite often many experts say that the year 2005 was a revolving one in the economic policy of the state. They mean the transition to active nationalization in Russia which is considered by many people to be the sign of final refusal of the executive power from the belief in the potential of development of free market.

In reality, *the causes of nationalization are not interpreted properly*. In reality, we are dealing not with the change of the paradigm in economic policy of the state. *The true cause of the processes of nationalization lies in the preparation for the Presidential elections which has been already initiated by the elite groups*. The point is that the leading nomenclature political groups require the creation of financial basis in order to win. Meanwhile, economic resources in this country are limited – and this is why each elite group lives in accordance with the principle of „zero sum game” – when it receives a new property, it automatically takes it from the opponents. Russian elites live in accordance with the logic of pre-election fight, and the battle between „successor projects” is frequently misinterpreted as the crash of the government policy.

Besides that, some well-known examples, such as the purchase of Sibneft by Gazprom, the State coming to the automobile industry, the sell of Power Machines to state companies, are not the only significant events in the sphere of property. In reality, *the other events were not less important – first of all one can recall the record number of the IPO conducted in 2005*. In 2005 a total of 13 Russian companies conducted the IPO – it means that not only the State takes part in the change of the owner of significant assets. Our businessmen are readily selling their property to the foreign investors. And this is done for political reasons as well. Russian business is not able to predict who will win the battle for the position of the President. And the process of property redistribution can activate after the completion of a new election cycle. This is why the number of businessmen are rushing to secure themselves by encashing part of their property by actively sending this property to the foreigners. Thus it is not correct to call the year 2005 „the year of nationalization” – because private companies, including foreign ones, took an active part in the redistribution of property.

Pre-election Fundraising

The elections are an extremely serious project which requires a maximum concentration of resources. For this particular reason the process of property redistribution has sharpened in Russia – it is important for each nomenclature political

group to concentrate in its hands maximum amount of finances. With this each of the groups understands that when it takes off the asset from its political competitors, it not only increases its own influence, but also weakens the weight of its direct competitors on the elections of 2008. This is the factor of elections which is the main stimulus of redistribution of property in oil and gas complex. But similar battles take place in the other industries as well.

After President Putin came to power, „siloviki” gained access to the control over the number of significant State assets. Those include, first of all, Gazprom, Rosneft, railway transport, nuclear industry and military industry complex. Their opponents from the „old Moscow” camp have partially retained their control over „old” big private business (non-ferrous metals, oil industry, machinery, air freight operations). However neither the „lawyers” nor the „liberals” did receive the property. As a result by the beginning of 2003 the situation occurred when the „siloviki” requested to pass over to them the control over big private concerns. And the „lawyers” and the „economists” have also expressed their claims to some part of economic assets.

Vladimir Putin as the author of the system of checks and balances between the major nomenclature political groups was forced to make concessions for both parties. Moreover, both the „siloviki” and the „liberals” have skillfully used the President’s fears. Let us say, the „siloviki” were able to convince Putin that Mikhail Khodorkovsky is preparing the „oligarch revolution” in the country, and the „economists” played on the fear of loss of the territorial integrity of the country and insisted on the initiation of transfer of ALROSA company from the influence of Yakutian elite under the control of the federal center. As a result, ***since 2003 the fight for property in Russia has started intensifying. And it is becoming obvious that it is gradually acquiring the characteristic features of accumulation of resource for the next presidential elections.***

The central topic of the year in this regard was the opposition of Gazprom and Rosneft. The formal reason for this opposition was the desire to increase the block of State share in Gazprom to the size of control package with the purpose of further liberalization of the market of gas monopoly shares. The real goal is to get personal control of the NPG of Petersburg „siloviki” over the energy sector of Russia by way of consolidation, on the basis of Gazprom, of the largest assets of oil, gas and electric energy branches of Russian economy. The latter is the strategic goal of the „siloviki”, and they hope to win the „competition” of „Successor” projects by means of its realization.

The idea of creation of united oil and gas complex was suggested by the „siloviki”, but very rapidly this idea received the support of the representatives of competing NPGs. This happened because the implementation of this idea will virtually

guarantee not only economic, but also political longevity. The battle started but this round ended by stand-off – because the President had decided to „separate” the opposing parties, and had not made it possible for either the „siloviki” or united block of the „lawyers” and the „liberals” to achieve absolute predominance. The company Rosneftegaz was created under the control of the „siloviki”, and 10.74% of Gazprom shares were passed there. The „lawyers” received US \$ 7 billion as a compensation. But Gazprom and Rosneft have not completed their merge.

However none of the conflicting parties had put away the idea of creating Gosneftegazenergo complex under their control. In particular, the „siloviki” continued their pressure on the lawyers in order to expand their influence in Gazprom, but as long as they understood the lack of short term prospects of this tactics, they temporarily betted on „inflating” Rosneft, which made the first purchase – Yuganskneftegaz, with new assets. The „lawyers”, in turn, had chosen to negotiate the annexation of Sibneft to Gazprom which was successfully completed in the fall of 2005, and had also counted on the rapprochement with the oil company LUKOIL.

Thus both the „siloviki” and the „lawyers” did not reject the idea of creating the united energy holding, but started building it on the basis of two different companies – Gazprom and Rosneft. With this both the „siloviki” and the „liberals” tried to persuade Vladimir Putin that they were managing the State property in a more efficient way. This is the source of regular reports of Miller and Bogdanchikov to Putin about the growth of capitalization of the companies headed by them (moreover, Bogdanchikov presented estimated data on the company value because the shares of Rosneft are not sold at the stock exchange yet), and numerous publications in mass media on the situation with growing debts of the state companies, with some editions predicting default for Gazprom, and the other – to Rosneft.

In order to increase Gazprom debts, the „siloviki” had „inflated” the value of Sibneft and gave it to Gazprom. As a result, Sibneft cost Gazprom US \$ 13.5 billion. This happened in the situation when in 2005 oil production on the company’s mines started decreasing because Sibneft has not invested in oil production for years and preferred to limit itself with taking the „cream” from the mines by using destructive technologies of the output of oil strata.

In addition to financial problems, when Miller was buying Sibneft he en faced the counteraction from the „siloviki” within the gas monopoly. In particular, the position of Sibneft head was given to Alexander Ryazanov who was close to the „siloviki”.

While the „siloviki” was not able to shake the positions of „liberals” in two natural State monopolies – Gazprom and RAO UES of Russia, they successfully win

the battle for the third monopoly. The position of the president of the OAO Russian Railways Gennady Fadeev was given to Vladimir Yakunin who was supported directly by Igor Sechin. Interestingly enough, the replacement of the OAO Russian Railways leaders happened almost simultaneously with the resolution of situation around Gazprom and Rosneft, and this is why it can be interpreted as the compensation to the „siloviki” for their refusal of the plans to merge the state companies.

Last year „Petersburg economists” accelerated their fight for ALROSA and, without having received the full control over the diamond monopoly, they made a stake on the expansion of its business at the account of buying up oil and gas and metal assets. Thus, they virtually copied the tactics of the „siloviki” and started creating the State monopolies themselves. In particular, Kudrin said that ALROSA was the only ore mining company with the State participation which is able to complexly develop the deposits of minerals which are vital for the economic development of the country. This is specifically for this reason why the Government of the Russian Federation is taking the steps to strengthen its positions in ALROSA company. In order to achieve this, it is being planned to increase its registered capital, and to increase the share of the President of the RF in it to the size of controlling stake. These actions will form the conditions for the creation of the national ore mining company on the base of ALROSA, which could, along with the production of diamonds, efficiently implement the State policy in the area of development of the other minerals both on the Russian territory and outside it.

In other words, Kudrin proclaimed the intention to make the „second Gazprom” from ALROSA. After that the rumors occurred in the market that the diamond company can buy Nor Nickel. Besides this the information occurred that the license for Talkan oil and gas deposit in Yakutia can be taken under control by the diamond monopoly. And here one should note that in the last three years the Finance Minister was not able to get the controlling stake of the company in his hands (although now there is now doubt that the control over ALROSA will be taken by the federal center in the very near future). Thus the „liberals” in 2005 started active preparations for the 2007-2008 elections, and in addition to „parasitizing” on the budget money, they betted on the creation of big state monopoly under their control.

In 2005 the „liberals” also continued their expansion to the ferrous metallurgy. Alisher Usmanov (responsible for metallurgic business of Gazprom and the member of the „lawyers” NPG) had tried to implement the plan on replacement of the owner

of Magnitogorsk Metallurgical Combine (MMC) by way of purchasing its major suppliers and sharp increase in the minerals costs, which should result in the bankruptcy of the MMC. But the MMC has finally won the battle for the raw materials by succeeding to lobby personal tariff for the transportation of bauxites by Russian Railways from Ukraine at the price three times less than the average market price. At the end of the year Usmanov, however, tried to „cancel” this decision of the Federal Tariff Service, but this action did not result in active continuation of the war. Thus the favorable moment for subjection of the MMC to the „liberal” NPG in 2005 was lost.

Meanwhile, the „siloviki” were continuing the successful implementation of their projects from the previous years, and simultaneously expanding the list of controlled enterprises. For example, Vneshtorgbank controlled by the „siloviki” conducted the deal on the purchase of 25% of share of the largest Russian forest industry company Ilim Pulp, and the leader of the „kadroviki” („bureaucracy” group) Viktor Ivanov proposed to implement his plan of creation of the United Aviation Corporation (UAC) which should include almost all the major Russian aircraft manufacturers (MiG, Sukhoi, Irkut, Tupolev etc.).

Meanwhile the team of Sergey Chemezov (the Head of Rosoboronexport) succeeded in expansion of its influence in the automobile industry. This subgroup of the „power” was able to receive AvtoVAZ and KamAZ under its control. At first they secured the voluntary retirement of Vladimir Kadannikov, the irremovable leader, from the position of the Head of the Board of Directors of AvtoVAZ. Then they started „cleaning up” from the factory the representatives of the SOK Samara automobile group which is nothing more but the legalization of the group of criminal businessmen of the mid-1990-s which to the moment became the biggest supplier of the details and the main distributor of the cars produced at this factory, and concentrated in its hands practically all operative management by AvtoVAZ. The third direction of the activity of new factual owners of AvtoVAZ is lobbying through the Government the new protectionist measures with regard to domestic automobile industry.

With this, the strive to achieve the control over the largest domestic automobile factories is dictated not only by the wish to get new financial preferences from its business positions, but also by the attempts to get political benefits as well. The people who especially need this type of projects are those representatives of the state machinery who are striving to get higher position within their groups. One of the members of this group is Sergey Chemezov who wants to strengthen his positions in the „siloviki” NPG. The activity he demonstrated with regard to AvtoVAZ and

KamAZ is becoming clear if one looks at the structure of their property which shows that these automobile giants do not have strong shareholders which would be able to resist the pressure from the „siloviki”.

Choice for the „Oligarchs”

Large business also could not stay aside of the redistribution of assets, because they are the people who have the major part of property in their hands. In this regard it is sometimes easier for the power elite to not directly take off the assets from the business, but made with it mutually profitable alliances. In general, today the **Russian „oligarchs” of Yeltsin époque are acting according to the three main scenarios.**

The first one is limited to the wish to guess who will be the winner in the game of political clans called „Successor-2008”, persuade this or that nomenclature political group in their political loyalty and join it. The second scenario assumes the refusal of participation in political projects and is limited to the wish to sell the main Russian assets and bring out the cash abroad.

The first scenario is being played by Oleg Deripaska, Alexei Mordashov, Vladimir Evtushenkov, Alexander Lebedev (all of them to the moment had „bet” on „Petersburg power” group), as well as by Alisher Usmanov and Vaghit Alekperov, who are more prone to join the „Petersburg liberals”. The owners of Alpha group and Access/Renova are not ready to sell their assets yet, but they are facing a painful choice whether to support the „liberal” or the „power” nomenclature groups. The second scenario was chosen by Roman Abramovich, Vladimir Potanin, Kakha Bendukidze and also Boris Ivanishvili.

It is unlikely however that they adhere to one scenario. In the course of 2005 some of them were changing their bets. For example, it was in 2005 only when Oleg Deripaska started the attempts to come to agreement with the „Petersburg power” group.

The first step of the BazEl owner directed on the rapprochement to the „power” elite was the assignment in the mid-summer 2005 of the ex-Vice Minister of Interior Euguenii Soloviev on the position of the Deputy General Director of RusAl. Together with Deripaska, the latter became responsible for the issues of economic security. After that the aluminum magnate joined the battle for the Power Machines thus interfering in the opposition for this asset between RAO UES of Russia, Gazprom and the German Siemens. And even while this asset finally was won by the „liberal” RAO UES of Russia, one should note that initially the deal of the sale of this holding to the foreigners was blocked personally by Igor Sechin.

An important step of the BazEl owner with regard to coming closer to the „power” NPG was the proposal of Deripaska spoken aloud in the fall to buy YUKOS' stake of Lithuanian Oil Refinery Mazeikiu Nafta. In parallel with his, he started negotiating on the guarantees of oil supplies with Surgutneftegaz and Rosneft (both of which are being controlled by the „Petersburg power” NPG). It is characteristic that unlike the other pretenders for this stake (for example, TNK-ÂÐ, LUKOIL and Kazmunaigaz, who tried by all means to gain the benevolence of YUKOS and Lithuanian bureaucracy, BazEl decided to directly address the Russian Ministry of Interior asking for assistance in buying Mazeikiu.

It was also this year when Vladimir Potanin took his final decision to bet on selling his assets. He started with selling the part of his assets to Rosneft (which received the controlling stake of Interros in the OAO Verkhnechonskneftegaz), and started selling the Power Machines (which will be purchased by RAO UES of Russia and Siemens). There are the rumors persisting in the market that Nor Nickel (the major asset of Potanin) can soon be sold to ALROSA which is controlled by the liberal NPG.

The reason for these rumors were two events which happened approximately at the same time: announcement of the Finance Minister Alexei Kudrin (Chair of the ALROSA Board of Directors) of the idea of creating on the basis of diamond company of vertically integrated ore mining holding of the international level, and the information on the high dividends paid by Norilsk Nickel. In particular, the Nor Nickel Board of Directors has recently taken a decision to recommend to the unscheduled meeting of stakeholders which will be conducted in the form of absentee voting on December 30, to pay interim dividends by the results of 9 months of 2005 equal to 43 rubles per share, which is a rather significant amount. This reminds one the story with Sibneft when before it was sold, the company got rid of virtually all cash exactly by means of paying huge dividends.

An additional argument in favor of the veracity of this rumor was an unusual deal between Nor Nickel and ALROSA. Specifically, in October 2005 the largest Russian gold-mining company Polyus which is a part of Interros holding bought from the Investment Group (IG) ALROSA the Yakutian gold-mining assets with deposits exceeding 1,000 tons. The volume of the deal was US \$285 million while some analytics estimated the value of purchased companies in US \$14.2 billion. This purchase can only be explained if ALROSA is going to take back these assets in the near future, but this time consolidated with the united company with Nor Nickel as a whole.

Thus, Potanin is trying to repeat the way of Roman Abramovich, who had just recently sold his largest asset in Russia – Oil Company Sibneft – to Gazprom for US \$13

billion which is a record sum for Russia. However the difference is that Abramovich played in one team with the „siloviki”, and Potanin is selling the assets to all the groups.

Comparing the financial potentials of two leading NPGs, ***it is hard to say which one of them is leading at the moment***. First of all, the groups themselves are not homogenous, and in this regard it is not quite correct to directly associate the financial potential of Rosoboronexport with the financial resources of Rosneft. Secondly, although the „liberals” do not control that big an amount of assets as the „siloviki” do, they distribute the budget of the RF and supervise the Stabilization Fund with gold currency resources. This is why it is hard to say which group has the bigger „money-box”. On top of that, it is rather difficult to estimate the scale of the finances misuse by Gazprom, while the exact data on such misuse could tell us who earns more: export department (under control of the „siloviki”) or the domestic market (under the control of the „lawyers” group).