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Erika Bürkle: Environmental Actors and Russia's Oil Extraction Industry. Causes of Inefficient Institutions in Environment

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Abstract

Environmental pollution is one of the most endemic problems Russia inherited from the Soviet Union. Enforced industrialisation and an abundance of natural resources including oil, gas, water and precious metals established a culture of neglect and carelessness for environmental issues. In an economy which is hugely dependent on extractive industries, the high oil prices have only intensified an already predominant attitude of using nature for the sake of economic growth and personal enrichment. Today, oil and gas account for more than 63 per cent of Russian exports and 49 per cent of the federal budget. The neglect of environmental issues is, however, common not only among businesses and state officials; compared to west European countries, there have been few acknowledgements of the individual responsibilities every single citizen bears to protect nature in their everyday lives, for instance by saving energy and recycling waste. Excluding international movements such as Greenpeace and World Wildlife Fund (WWF) Russia, there is currently little nation-wide civic pressure exerted on the authorities to ensure a clean and healthy environment, which is a constitutional right guaranteed by the state. Instead, most environmental initiatives take place on local and regional levels. This is even more surprising considering the fact that, to a significant extent, Russia's civil society grew from ecological movements which developed in the late 1980s.

Since President Vladimir Putin came to power in 2000, the institutional framework for the protection of the environment has undergone fundamental changes. This paper analyses these changes by scrutinising the reasons for the still prevalent systemic neglect of environmental issues today. In what follows, the author argues that these institutional changes have only increased the inefficiency of institutions created to protect the environment. Furthermore, evidence is provided of how the current institutional framework of environmental protection has led to a situation where issues of ecological concern are used as a political tool by the authorities and different interest groups, undermining the whole concept of environmental protection and weakening the role civil society can play in mitigating the negative impact of the oil industry on the environment.

1. Introduction

In the discourse of environmental problems around the world, the oil industry has traditionally been portrayed as a culprit. The Russian oil extraction industry certainly does not pose an exception. The arguments brought forward by environmental non-governmental organisations (NGOs) go along the following lines: 'Fossil fuel and mining projects endorse environmental destruction, corruption of local governments, long-term fossil fuel dependence, global climate change, human rights violations and further deepen the national debt of already heavily indebted poor countries'¹. Doom and gloom scenarios of this kind are supported by governmental figures showing that the oil and gas extraction industry is among the biggest contributors to air and water pollution² and by pictures of oil leaks published online by international media and ecological activists³.

Although leaks in oil pipelines and oil tankers involved in accidents have been numerous, only few of them have received nation-wide attention from the Russian public. According to the estimates of the World Bank, the Kharyaga-Usinsk regional pipeline which stretches across northern Russia to carry as much as 220,000 barrels of oil per day from the Pechora oil fields⁴ had leaked more than 100,000 tons oil between 1994 and 1995 alone. The U.S. government's estimates were even higher at 270,000 tons⁵. Its aging oil pipeline had begun to leak in the summer of 1994, but its then owner, Komineft, did not carry out any repairs nor stopped the flow of oil. According to the information available on the Internet, the worst pollution through leakages of worn-out pipelines occurs in the north-eastern parts of European Russia (the Pechora Basin) and north-western Siberia (the oil and gas fields north of Tiumen) where the pipelines are nearing or past the end of their service life of around 30 years⁶.

In the face of these ecological challenges, a certain institutional framework has developed in Russia for the actors involved in protecting the environment from the negative impact of oil extraction. However, the environmental protection system set up by the state has failed to regulate efficiently the activities of the oil companies. In response to the state's failure, non-state actors have developed their own strategies

- 1 ECA Watch website, <http://www.eca-watch.org>, also states that 'one of the largest oil and gas projects in the world backed by ECAs [Export Credit Agencies, EB] is the Sakhalin II integrated oil and gas project in Russia. In: http://www.eca-watch.org/problems/oil_gas_mining/index.html, accessed on 12 February 2008. Export Credit Agencies are export credit and insurance agencies providing government-backed insurances for domestic companies which export their goods abroad, especially in unstable markets.
- 2 According to the statistical data compiled by the Europe Aid Project 'Harmonisation of Environmental Standards (II) – Russia' in 2007, a comparison of the role different Russian industries play in their contribution to air pollution clearly shows oil extraction and processing as one of the most hazardous economic activities in terms of its negative impact on ambient air. Taken together, the branches of the industry dealing with oil production or oil processing accounted for approximately 30% of the discharges of air pollutants in 2002 while in 2004, companies involved in mining of fuel and energy materials alone released 5.6 million tons of pollutants into ambient air (27.5% of the overall pollutant emission). In terms of water pollution by the oil industry, 18.5 milliard cubic meters waste water were discharged by all branches of the Russian industry in 2004. The oil processing industry was responsible for 210,300 million cubic meters of these discharges. In: The Governmental Report 'On the State and Protection of the Environment in the Russian Federation in 2005', Ministry of Natural Recourses, 2006. Quoted in the briefing material compiled by the Europe Aid Project 'Harmonisation of Environmental Standards (II) – Russia': Russian Environmental Pollution: Industrial Branches and Regions, Moscow 2007, p. 3.
- 3 A 'Google' search for the keyword combination 'oil+spills+Russia' on 12 February 2008 produced 185,000 results with contributions ranging from photo galleries on oil spills such as Shell's oil spill at Kholmsk on Sakhalin Island in 2004 (http://www.eca-watch.org/problems/eu_russ-/russia/sakhalin/ShellOilSpillPics.html, accessed on 12 February 2008) and warnings about birds and dolphins dying due to oil spills and gray whales' breeding grounds threatened by pollution disasters in the Sea of Okhotsk in Russia's Far East (http://news.nationalgeographic.com/news/2006/05/060508_whales.html, accessed on 12 February 2008).
- 4 The Pechora oil field (Timan-Pechora oil province) is located in the administrative regions of the Republic of Komi and the Nenets Autonomous District and is owned by Lukoil. The oil province extends under water into the Pechora Sea.
- 5 Menon, Shanti: Russia's Black Future: Oil Spill from Russian Pipeline, in: Discover, February 1996, at http://findarticles.com/p/articles/mi_m1511/is_n2_v17/ai_17808117, accessed on 13 February 2008.
- 6 Johnson's Russia List, 4.04.2002, at <http://www.cdi.org/russia/johnson/6168-11.cfm>, accessed on 13 February 2008.

to deal with these shortcomings. In this paper, I outline why formal institutions regulating environmental protection in post-El'tsin Russia cannot be effective guardians of the environment, why ecological Non-Governmental Organisations (NGOs) find it increasingly difficult to put pressure on both the state and businesses and how at the same time the private sector is compelled by international market forces to become more transparent and ecologically sound.

2. Relevant Theoretical Background

As the underlying theoretical model, the influential work of institutionalists such as Douglass C. North (1981, 1990)⁷ on the effectiveness of institutions and institutional change helps to explain why these changes have taken place and define those actors who benefit most from the present set of rules. In accordance with the Northian model, institutions are understood as the set of rules of the game in a society or the humanly devised constraints shaping human interaction⁸. They consist of both *formal constraints* and *informal codes of conduct* and provide structure to the everyday life of individuals. In the context of industries with high ecological costs such as in oil and gas extraction, they constitute the systemic framework in which environmental protection takes place by regulating the activities of oil extraction companies. The systemic framework is the set of options available to the actors (the state, private businesses and civil society) and the institutional patterns of behaviour exposed when choosing one of them.

Actors in political markets act in accordance with the same system as actors in economic markets: if the (political) transaction costs are low, they will follow the institutional models or the established set of beliefs. Should, however, following the set of rules generate higher transaction costs – or the subjective perception by the actors of them being higher – the result will be inefficient institutions⁹. In the case of the extraction of natural resources and the environmental issues arising from this, the implications are that if transaction costs for *following* the formal environmental regulations are excessive or the regulations impossible to comply with, the private sector players will refrain from following them. As a result, alternative, informal institutions will emerge to make up for the shortcoming of the formal ones. On the other hand, when *enforcing* formal environmental regulations bears transaction costs which are unacceptably high for the state actors – i.e. if by doing so they alienate the business community and if the business community is perceived as a more important constituency than the public – the state will also refrain from enforcing formal constraints on businesses and will develop alternative strategies to exert control over them, such as selective punishment and informal agreements.

Selective punishment functions in connection with what Alena Ledeneva defines as 'suspended punishment'. Since the legal and regulatory framework in environment is inconsistent and sometimes impossible to meet, all extraction companies are under the threat of 'suspended punishment':

Because of the pervasiveness of rule violation, punishment is bound to occur selectively on the basis of criteria developed outside the legal domain. *While everybody is under the threat of punishment, the actual punishment is 'suspended' but can be enforced at any time (emphasis [non-italic characters] in original, EB).*¹⁰

7 North, Douglass C.: Structure and Change in Economic History, New York, London, 1981, pp. 199 – 209 and North, Douglass C.: Institutions, Institutional Change and Economic Performance, Cambridge University Press, New York, 1990.

8 North, Douglass C.: Institutions, Institutional Change and Economic Performance, New York: Cambridge University Press, 1990, p. 3.

9 Ostrom, Elinor: Governing the Commons: The Evolution of Institutions for Collective Action, Cambridge: Cambridge University Press, 1990, p. 41.

10 Ledeneva, Alena V.: How Russia Really Works: The Informal Practices that Shaped Post-Soviet Politics and Business, Ithaca: Cornell University Press, 2006, p. 13 and on the principle of 'suspended punishment' in: Ledeneva, Alena V.: Russia's Economy of Favours: Blat, Networking, and Informal Exchange, Cambridge: Cambridge University Press, 1998, p. 77.

3. Institutional Framework In Environmental Protection¹¹

The setting, permitting and enforcing of environmental standards is vested with several federal ministries, agencies and services. They are outlined in the following sections.

The **Ministry of Natural Resources** is responsible for drafting laws and submitting them to the State Duma on issues under its authority (water resources, the use of forest and natural resources). Furthermore, it adopts regulations on maximum permissible negative impacts on special ecosystems such as Lake Baikal and develops rates and methodologies for estimating environmental damage. As a supervisory agency the **Federal Service for Supervision in Nature Use (RosPrirodNadzor)** – reporting to the Ministry of Natural Resources – is empowered to supervise compliance with the land use law and other relevant laws. The **Federal Agency for Water Resources**, also reporting to the Ministry of Natural Resources, is responsible for establishing maximum allowable negative impacts on water.

The **Federal Service for Environmental, Technological and Nuclear Supervision (RosTekhNadzor)** reports directly to the government of the RF and is responsible for drafting and submitting respective draft laws on issues under its authority, regulating the issuance of permits relating to nuclear facilities, dangerous facilities, permitting air emissions, methodologies for air emissions and waste disposal limitations. Furthermore, it establishes inspection rules and procedures, enforces environmental protection requirements (environmental control) and issues permits for air emissions and wastewater discharges.

The **Federal Service for Supervision in Protection of Consumers' Rights and Human Well-Being** reports to the Ministry of Health and Social Development and is responsible for sanitary and epidemiological control and the enforcement of sanitary legislation. It is empowered to establish the majority of environmental quality standards, i.e. water quality standards for water bodies designated for drinking and commercial supply, air quality standards, soil quality standards as prescribed by the law 'On the Sanitary and Epidemiological Well-Being of the Population' and the decree 'On State Sanitary and Epidemiological Standard Setting', approved by the Governmental Decree dated 24.07.2000 as amended on 15.09.2005. At the present time, dozens of such sanitary rules relating to environmental quality are in force, which gives the federal agency considerable leverage over actors in the private sector.

The Ministry of Natural Resources, due to the economic and political importance of oil and gas exports, is one of the most important ministries today. Still, power games for influence between the state institutions involved are prevalent, which in the context of environmental protection have been intensifying, in particular between the Ministry of Natural Resources and RosTekhNadzor, which is an independent agency reporting directly to the government. Implementation of environmental laws and regulations therefore takes place amid a permanent struggle for power among the formal state agencies.

A highly distinctive feature of institutional capacity and its usage is the non-consistent application of the rule of law, especially in general and environmental regulations. Two cases of what by Russian authorities were claimed to be environmental infringements received world attention in 2007. Complaints about violations of environmental regulations were numerous even before the Russian authorities initiated investigations into the misconduct of the Sakhalin Energy Investment Company (Sakhalin Energy) – a consortium formerly led by Royal Dutch Shell of which Gazprom is now the majority stakeholder – which develops oil and gas fields on the island of Sakhalin and off its shores under the highly beneficial conditions of a

11 In this section of the paper, the author strongly relies on the expertise, knowledge and experience of the team leader of the Europe Aid Project 'Harmonisation of Environmental Standards II in Russia', Mr. Dietrich Hahn who graciously shared his knowledge of the Russian institutional and legislative framework on environment in Russia. The author would like to thank him for his time and contributions to her research.

production sharing agreement (PSA)¹² signed in 1994¹³. Environmental inspections conducted in 2006 estimated the damage to Sakhalin flora and fauna from Sakhalin Energy's operations at 10 billion USD: according to RIA Novosti, the company has admitted that 'it will be necessary to restore 529 rivers on the island', and that the habitat and breeding grounds of endangered species such as grey whales have been destroyed¹⁴.

The Russian authorities did not only criticise violations of environmental, labour and immigration legislations, but also vehemently disapproved of what was seen as a constant increase in the project's costs – the Sakhalin II operator now insists on doubling the budget for the project – from the endorsed 10 billion USD to 22 billion USD, which would delay the time when the government will start seeing profits by two to three years. All these concerns were dropped when Gazprom finally became the Sakhalin II majority shareholder after the shareholders of Sakhalin Energy sold parts of their shares to the state company, pushing the Anglo-Dutch company out of the key position in the Sakhalin project. Royal Dutch Shell had to dilute its stake in the 20 billion USD project implemented by Sakhalin Energy and cede control to Gazprom. Although the authorities have dropped all charges against Sakhalin Energy, environmental activists still repeat their warnings about permanent damage done to the environment and natural habitat by the project in the area¹⁵.

In a similar move, Russian authorities were expected to revoke TNK-BP's licence to operate the Kovykta field in Eastern Siberia which, with its estimated 2 trillion cubic meters of gas reserves, represents 6 per cent of BP's total non-proven global oil and gas reserves¹⁶. The British-Russian joint venture was formed in 2003. The trouble for TNK-BP began when the deputy head of RosPrirodNadzor Oleg Mitvol stated to the press that a review of the activities of the joint venture on the giant Kovykta gas fields showed violations of the licence terms. TNK-BP argued that, according to the licence agreement, it was only obliged to meet local demand which turned out to be considerably lower than originally set out in the agreement¹⁷. Facing the withdrawal of its licence, TNK-BP sold 63 per cent of its stake in Kovykta to Gazprom on 22 June 2007. Analysts have long predicted that regulatory pressure will disperse as soon as British Petroleum allows a state-controlled company – the gas monopoly Gazprom or the oil company Rosneft – to take over the stakes of BP's Russian partners. The sale at what experts estimated to be a knockdown price of between \$700 million to \$900 million transferred a key field in the potentially lucrative East Siberia region into the hands of the state-run gas monopoly¹⁸. As predicted, the government announced immediately after the sale that all environmental and licensing issues had been solved.

On the other hand, in a show of utter negligence of environmental considerations, the same agency RosPrirodNadzor approved the construction plans for a gas pipeline run by the state oil pipeline monopoly Transneft. The proposed gas pipeline 'East Siberia-Pacific Ocean' is supposed to bring gas from eastern Siberia to China while cutting through the Tunka National Park at the southern tip of Lake Baikal. However, some

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- 12 The PSA on Sakhalin II was the first agreement of this kind in Russia, the biggest foreign-financed project in the country and at the same time the biggest oil and gas project in the world with the aggregated recoverable reserves of the Piltun-Astokhskoye and Lunskoye fields developed in the project totalling 150 million tons of oil and 500 billion cu of gas. In: http://www.sakhalinenergy.com/en/ataglance.asp?p=aag_main&s=1, accessed 9 July 2007.
 - 13 The initial structure of Sakhalin Energy was Royal Dutch Shell (55%), Mitsui (25%) and Mitsubishi (20%). In: http://www.sakhalinenergy.com/en/aboutus.asp?p=key_milestones, accessed 9 July 2007.
 - 14 RIA Novosti, 15 December 2006, accessed at <http://en.rian.ru/analysis/-20061215/56987245-print.html> on 16 June 2007.
 - 15 The Moscow Times, 9 July 2007.
 - 16 The Independent, published on 3 June 2007, accessed at http://news.independent.co.uk/business /analysis_and_features/article2607308.ece on 06 June 2007.
 - 17 According to representatives of RosPrirodNadzor, the company produced 1.5 billion cubic meters from the field in 2006, while the target set out in the license agreement was 9 billion cubic meters, International Herald Tribune, 20 May 2007, accessed at <http://www.iht.com/bin/print.php?id=5793168> on 6 June 2007.
 - 18 The Moscow Times, 26 June 2006. Also: Chistilishche ot Gazproma, in: Ekspert, No. 24, June/July 2007, where the costs of the deal has been put somewhat lower, at \$ 600 million to \$800 million.

of the watershed basins of Lake Baikal with its three National Parks and three State Nature Reserves have been included on the list of UNESCO World Heritage Sites. And yet, in 2006 it was decided to pursue the pipeline route passing only 800 metres from the northern shore of the lake while the warnings of environmental scientists and activists on the seismic risks of the area and the high danger of oil spills polluting not only the shores of the lake but also its watershed basins were ignored by the authorities¹⁹.

According to Baikal Environmental Wave²⁰, the proposed route was vetoed by the Russian State Environmental Impact Assessment Committee because of the high seismic risks, the likelihood of oil spills and the close proximity to Lake Baikal; nevertheless, the route finally was approved by the Committee after RosTekhNadzor decided to extend the period of review. Due to local and international initiatives, the pipeline had caught the attention of the Russian as well as international public. After months of public protest, demonstrations and internet petitions, President Putin intervened and brought the construction of the proposed pipeline to a halt. In April 2006, he ordered that the pipeline plans should be altered and routed around the shore of the lake.

When environmental issues are used in politicised battles for strategic assets in oil and gas, public trust in the very institutions which are supposed to protect the environment is undermined. Moreover, it prevents the public from getting involved in civic activism in general and in environmental initiatives in particular by creating a cynical attitude about what ecological initiatives can achieve.

4. Interaction of Different Actors in Environmental Protection

As Jared Diamond²¹ concluded in his latest analysis of the role of environmental decisions in whether societies survive or collapse, the way businesses operate can be a decisive factor. However, it is only rational for them to operate in an environmentally sound way when being a responsible corporate citizen bears benefits. Environmentally clean big businesses may outcompete dirty ones, 'when government regulation is effective, and when the public is environmentally aware [...], but the reverse is likely to be true if the government regulation is ineffective and if the public doesn't care'²². After a wave of environmental activism in the 1980s in Russia, environmental issues were subordinated to the struggle for mere survival in the 1990s and to economic growth in the last decade. On the basis of the cases presented by Diamond, the conclusion can be made that changes in public attitude are an essential factor for changes in business environmental practices as well as for changes in formal environmental institutions. These changes cannot be observed in Russia yet. On the contrary, Russians today are less inclined to be involved in civic activism. At the same time, in a move reminiscent of the Soviet era where public initiatives were incorporated into the state and party system, we can observe attempts by the state to co-opt civil society by curtailing the legal space for Non-Governmental Organisations (NGOs) to operate, creating obstacles for foreign funding and founding state-sponsored NGOs and quasi civil society bodies such as the Public Chamber²³.

Kris Wernstedt, in his discussion of who is protecting the environment in Russia, states that the Russian public appears reluctant to participate in civil society organisations²⁴. The evidence provided by Wernstedt indeed causes pessimism: in a poll of 1,500 Russians conducted in 2001, only 5 per cent of the respondents indicated that they were currently participating in public organisations, while 75 per cent said

19 Harris, Kate: Pipelines, people and politics: Plans for a new Siberian oil pipeline to run along Lake Baikal's shoreline were changed after popular protests earlier this year, in: Brent Newsletter, Issue 5, Summer 2006, pp. 2 – 3 (p. 2).

20 Baikal Environmental Wave, Press Release, published on <http://www.baikalwave.eu.org/Econews/Press-rel/truba.doc>, accessed on 21 July 2007.

21 Diamond, Jared: Collapse: How Societies Choose to Fail or Succeed, London: Allen Lane, 2005.

22 Diamond, Jared: Collapse: How Societies Choose to Fail or Succeed, London: Allen Lange, 2005, p. 483.

23 Evans Jn. /Alfred B.: A Russian Civil Society?, in: Stephen White, Zvi Gitelman, Richard Sakwa (eds.), Developments in Russian Politics 6, Basingstoke: Palgrave Macmillan, 2005, pp. 96 – 113 (pp.99, 109).

24 Wernstedt, Kris: Who is protecting Russia's Natural Resources? Why should we care?, in: Resources, Summer 2002, No. 148, pp. 22 – 27 (p.24).

they had no interest in doing so. At the same time, according to data collected by Wernstedt, increased public involvement is considered one of the priorities for improving environmental policies by 41 per cent of the respondents.

Having said that, there is still evidence of companies in Russia succumbing to public pressure. For instance, Sakhalin Energy Consortium and its then major shareholder Shell were forced to change the location of the planned new off-shore oil rig because of a breeding area of grey whales north of Sakhalin Island. In a further example, it was the direct intervention from President Putin following a public initiative which brought the changes in the route of a new oil pipeline (see above). However, with the given lack of incentives for environmentally sound operations, the private sector cannot be expected to become the driving force behind environmental protection. The main burden and responsibility for action therefore lies within society. Nevertheless, there are global incentives at force moving private businesses towards ecological soundness in their operations.

A noticeable trend towards a more environmentally responsible behaviour has been observed in Russia:

When companies stop fighting over ownership and start planning an IPO at the New York Stock Exchange, they immediately start planning their activities for 7, 15, 20 years ahead [...]. At the same time, however, a negative trend of redirection of personnel takes place within the state where those who are competitive go into the private sector. Often, the result is that private businesses are more open for dialogue than the state.²⁵

It is remarkable that Yevgenii Shvarts, an ecological scientist and activist with the World Wildlife Fund (WWF) in Russia emphasises that ecologists at WWF Russia today look into the future optimistically. They do so because of the growing Corporate Social Responsibility (CSR) among Russian companies and a growing middle class, both of which is expected to have a positive impact on ecological awareness and the willingness to operate in an environmentally sound way.

This optimistic outlook has been confirmed by a survey of Russian enterprises conducted by the Carnegie Moscow Center. Some 315 Russian companies were polled in a survey on ecological policies in the BRIC countries (Brazil, Russia, India, China), 21 per cent of which responded. According to the results of the survey, the most ecologically active companies were involved in oil and gas extraction as well as the timber industry²⁶. The high participation of the oil and gas industry in the survey and their positive assessment underline the fact that the natural resources extracting industry has realised the importance of environmental issues as a competitive advantage on the international market and an important advertising criteria for consumers.

5. Conclusions

Several political scientists have explored how the abundance of oil wealth can reverse or erode democratising trends, most recently the political scientists Michael L. Ross²⁷ and Thomas L. Friedman²⁸; the former concluded that reliance on the exports of natural resources tends to make states less democratic, while the latter correlates rises and falls in the price of oil with rises and falls in the pace of freedom in petrolist countries. Ross lists the mechanisms through which oil wealth can impede democracy. First, he argues

25 Shvarts, Yevgeny, director for conservation policy of the Russian Office of the World Wildlife Foundation, 30 November 2008, at a seminar on 'Economic Development and Environmental Policy: Challenges, Problems and Prospects for a Transition to Sustainable Growth in Russia', hosted by the Carnegie Moscow Center. Recordings of the presentations are available at http://www.carnegie.ru/en/pubs/media/10062_DM200004.WMA, accessed 11 February 2008.

26 Transcripts of the seminar on 'Economic Development and Environmental Policy: Challenges, Problems and Prospects for a Transition to Sustainable Growth in Russia', hosted by the Carnegie Moscow Center. Recordings of the presentations are available at http://www.carnegie.ru/en/pubs/media/10062_DM200004.WMA, accessed 11 February 2008.

27 Ross, Michael L.: Does Oil Hinder Democracy?, in: World Politics, April 2001, pp. 325 – 361.

28 Friedman, Thomas L.: The First Law of Petrogeopolitics, in: Foreign Policy, May/June 2006, pp. 28 – 36.

that a taxation effect can be observed as oil-rich governments tend to use their revenues to relieve social pressure by spending in the social sphere. By doing so, they can prevent demands for greater accountability from arising. As Friedman summarises it,

the motto of the petrolist authoritarian is 'no representation without taxation.' Oil-backed regimes that do not have to tax their people in order to survive, because they can simply drill an oil well, also do not have to listen to their people or represent their wishes.²⁹

Furthermore, increased spending to support regime-conform groups and to prevent independent social groups from forming is characteristic of oil-rich states, as is the repression of any opposition by excessive spending on internal security, police and intelligence forces that can be used to suppress democratic movements. Taking all this into account, Friedman has coined what he calls 'The First Law of Petropolitics' which helps to understand some of the aspects influencing Russia's economy and politics today:

The price of oil and the pace of freedom always move in opposite directions in oil-rich petrolist states. According to the First Law of Petropolitics, the higher the average global crude oil price rises, the more free speech, free press, free and fair elections, and independent political parties are eroded. And these negative trends are reinforced by the fact that the higher the price goes, the less petrolist leaders are sensitive to what the world thinks or says about them.³⁰

Nations can avoid these negative consequences, but, in order to do so, societies are dependent on the regulating and (self-) controlling powers of the state as well as responsible and self-restraining behaviour on the part of the private sector. As research into this topic has shown, the oil and gas industry has become one of the most important contributors to the economic growth of recent years in Russia. After a decline in production due to the collapse of state and economy following the demise of the Soviet Union and the introduction of market reforms, Russia's oil and gas industry has regained its pole position as the major contributor to the state budget. In the course of the last ten years, revenues extracted from the natural wealth of the country have increased steadily. At the same time, the growing importance of the natural wealth sector has brought not only economic, but also political and social changes. We have seen Russia's oil barons gaining power and falling from grace; we have seen relations between Russia and its neighbours being shaped by the gas and oil supplies, we have seen multinationals like British Petroleum and Royal Dutch/Shell flocking into the oil fields of Russia's Far East and losing huge amounts of money there, only to return again and bring with them the idea of Corporate Social Responsibility (CSR) and sound environmental practices.

Increased social and ecological awareness of the risks to the environment resulting from oil and gas extraction, local participation in decision-making processes and cooperation between political and economic actors, as well as a dialogue with representatives of civil society, have been some of the positive effects triggered by these changes. Unheard of among the broader Russian public before, human rights of indigenous tribes inhabiting Siberia are discussed in the international community and international campaigns launched to rescue the grey whales whose breeding grounds are threatened by oil rigs off the shores of the Sakhalin Island. These examples indicate that changes have taken place, and that, against all expectations, the private sector has been part of it. It will remain to be observed which implications the trend towards the re-nationalisation of Russian oil assets will have in regard to the companies' attitudes to environmental protection and Corporate Social Responsibility (CSR). Finally, it is a worrying sign that environmental movements, which have proven to be effective motors for public participation and civil society activism in the times of *glasnost* and *perestroika*, are finding it increasingly difficult to fulfil their role of advocating the interest of the wider public.

29 Friedman, Thomas L.: The First Law of Petropolitics, in: Foreign Policy, May/June 2006, p. 32.

30 Friedman, Thomas L.: The First Law of Petropolitics, in: Foreign Policy, May/June 2006, p.31. Friedman defines petrolist states as states which are dependent on oil production for the main part of their exports or gross domestic product, and at the same time have weak state institutions or outright authoritarian governments.