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정치학석사학위논문

**The Political Dynamics
Behind the Renationalization of
Russia's Energy Sector**

러시아 에너지 부문 재국유화의 정치적 동학

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Abstract

The Political Dynamics Behind the Renationalization of Russia's Energy Sector

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The purpose of this thesis is to analyze and compare the cases of the Russian energy firms that were the targets of nationalization in the 2000s and to find the political dynamics behind the successes and failures of nationalization attempts by the Russian government. After the dissolution of the USSR, the Russian government privatized most of the economic sectors, including the energy sector, for transition to a market economy. Soon afterward, however, it carried out extensive renationalization of the strategic sectors during the first and second terms of the Putin administration. A number of energy firms were nationalized during that period but some remained intact despite the government's attempts. What determined whether such nationalization attempts succeeded or failed? Since the federal government had the upper hand over businesses during the Putin administration, this study aims to

analyze the renationalization of Russia's energy sector with a focus on the failed cases.

Previous studies on the nationalization of the energy sector have failed to properly capture the complex political dynamics behind the nationalization process because each of them presented only a single variable such as international and domestic conditions, leadership, structure, and state-business relations. Also, the existing research, focusing on cross-national comparison, describes nationalization within a country as a complete success or failure; thus, it overlooks the fact that there can be a difference in the degree of achievement of nationalization within a country. Accordingly, the existing studies fail to analyze success and failure of nationalization on the corporate level.

To overcome these limitations, this study categorizes variables relating to the renationalization of the energy sector into "motivating factors," "enabling factors," and "constraining factors" and sets them as an analytical framework to grasp the political dynamics behind the nationalization of each company. In particular, "constraining factors" is defined as "interested parties" that can resist or block a nationalization attempt by the federal government. These interested parties can be categorized into "oligarch," "foreigner," "regional government," or "individual owner." This thesis argues that success or failure of nationalization can be explained by the type of and combination of interested parties. The first hypothesis is that the bigger the comparative advantage that a specific type of interested party has in relation to the government, the more likely that the government will fail to renationalize. The second hypothesis is that the more types of interested parties that

are involved in the process of renationalization, the more likely that the government will fail to renationalize.

Even the Putin regime, which maintained an authoritarian ruling style, failed to renationalize in the case of TNK-BP, where a foreigner from a powerful nation was the first owner, and also in the cases of Bashneft, Ufimsky NPZ, and Ufaneftekhim, where a regional government with an institutionally guaranteed authority existed as an interested party. On the contrary, an oligarch turned out to be the interested party with the least ability to block nationalization in the cases of Gazprom, Yukos, and Sibneft. This is because most of the oligarchs had become owners of energy firms through unlawful privatization, and thus it was relatively easy for the federal government to gain legitimacy to renationalize. In addition, oligarch-owned companies had been under state ownership before the privatization, and thus the state retained a certain amount of shares in those companies. This made it simpler for the federal government to renationalize them. Meanwhile, an individual owner, facing a nationalization attempt by the federal government, showed less ability to block it than did a foreigner or the regional government, but he or she reacted more effectively than an oligarch. Novatek, a company run by an individual owner, had never been under state ownership, so the state had no shares in it. This made it trickier to nationalize the company. Also, Novatek was a start-up company that had been founded after the transition to a market economy, and it did not experience unlawful privatization; thus, the federal government was unable to secure sufficient legitimacy to nationalize it as easily as when coping with an oligarch. By contrast, ITERA, despite being a start-up company, could not prevent nationalization

by the federal government because it provided the Putin regime with legitimacy to nationalize it by actively participating in the asset-stripping of Gazprom, the largest company in Russia.

This study contributes to the deeper understanding of the real aspects of the nationalization of Russia's energy sector by categorizing the literature on the subject into the groups of "motivating factors," "enabling factors," and "constraining factors." Furthermore, the present study has extended the existing research that assumes both that Russia has succeeded in renationalizing its energy sector and that this can be credited solely to Putin's ruling ability. Namely, this study sheds new light on the failed renationalization cases of the Putin regime that has been considered to hold advantage over businesses and analyzes the causes of the failures. In conclusion, this thesis helps us better understand the political dynamics behind the renationalization of the energy sector by paying attention to the difference in the degree of achievement of nationalization that occurs within a country and by systemizing the factors contributing to this difference.

Keyword: Russia's energy sector, energy corporations, renationalization, corporate ownership structure, Putin, interested party

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I. Introduction

1. Research Question

When Putin administration during the 2000s pushed ahead with renationalization of Russia's energy sector, which factors were key in deciding the success and failure for government's attempts to nationalize an energy firm? The existing studies presume that nationalization of energy sector occurs in state unit level and therefore fails to notice the fact that even if the state-level nationalization is achieved, there can be difference in the degree of achievement in the domestic corporate level. Thus, this study attempts to reveal the critical factors that decided the fate of nationalization for each energy corporation by analyzing the political dynamics behind the renationalization of Russia's energy sector. I divide the factors that influenced renationalization into three categories: motivating factors, enabling factors, and constraining factors. Essentially, I argue that the critical factor for the failure of renationalization is different number and type of interested parties that can resist or interrupt the government in acquiring a given firm.

Russia's economic sectors have experienced substantial changes in ownership structure from the era of USSR through Yeltsin administration in 1990s

to Putin administration in 2000s. The energy sector—oil industry and natural gas industry—have especially experienced wild upheavals: the energy industry is the object of huge interest for both the government and private sector because of its characteristically grand scale and strategic importance.

Globally, it was during the 1960s—1970s that wave of nationalization hit natural resource industry. In contrast, the USSR nationalized its natural resource sector along with all the other economic sectors right after the Bolshevik Revolution in 1917. From this point, state ownership of the energy sector lasted for about 70 years under the so-called “centrally planned economy” or “command economy” of the Soviet Union.

In 1991, after the dissolution of the USSR and seizure of power by a regime with liberal orientation, Russia began to privatize economic sectors hitherto under the state control. The energy sector also was an object of privatization. This is not a common phenomenon, since almost every oil or gas producing country keeps its energy sector under the state control while liberalizing other economic sectors such as service or manufacturing. In fact, globally, around three quarters of the total amount of petroleum extracted are produced by national oil companies.¹

In the wave of privatization of economic sectors that were under state ownership for a long period of time, there appeared so-called “oligarchs,” newly-rising business tycoons who have accumulated an enormous amount of fortune

¹ McPherson, Charles. 2003. *National Oil Companies: Evolution, Issues, Outlook*. Washington, DC: World Bank. Vol. 3.

during the privatization process, as powerful players influencing Russian economy and politics. Even among them, the energy and oil oligarchs were the most powerful. Mikhail Khodorkovsky, the owner of oil and gas company Yukos, and Boris Berezovsky and Roman Abramovich, the owners of oil company Sibneft, are some of the examples.

Table 1. State Takeovers of Energy Companies in Putin Administration

Target	Top 200 size rank by 2003 sales	Date	Achieved control level
Completed takeovers (as of the end of 2008)			
Gazprom	1	2005. 6	Majority
Yukos	5	2004. 12	Majority
Sibneft	9	2005. 10	Majority
Novatek	60	2006. 7	Blocking minority
ITERA	70	2006. 12	Majority
Uncompleted takeovers (as of the end of 2008)			
TNK-BP ²	6		
Bashneft	30		
Ufimsky NPZ	119		
Ufaneftekhim	128		

Source: Chernykh (2011, 1252-1253).

However, the privatization of the energy sector that had taken place during the 1990s as reversed by Putin administration's extensive renationalization in the

² TNK-BP is not classified by Chernykh (2011) as a target of state takeover, but I consider it as a nationalization attempt from the fact that in 2005 the tax authorities demanded paying delayed tax of one-billion dollars (Lee 2010), since it was a very similar method to the one taken by the government in order to nationalize Yukos.

2000s. A representative example is so-called “Yukos Affair.” The Russian government charged Yukos, then the largest oil company in Russia, additional tax arrears of \$3.4 billion, which led to bankruptcy of Yukos. After the bankruptcy, Baikalfinansgrup, a subsidiary company of a national oil company Rosneft, purchased Yuganskneftegas, the core subsidiary company of Yukos. Baikalfinansgrup was built only two weeks before the auction of Yuganskneftegas: it is not a wild-eyed inference to consider Baikalfinansgrup as a company built for the purpose of expropriation of Yukos.

Analyzing renationalization phenomenon that occurred from 2004 to 2008 in Russia, Chernykh (2011) lists Russia’s large companies that had been targets of state expropriation during the period. I sorted out companies in oil and natural gas industries from his list and organized them in Table 1.

Examining Table 1, one can see that most of the major energy companies had been nationalized before 2008. Nonetheless, unlike common perception that Putin enjoyed a free hand through high approval ratings and authoritarian ruling style, there exist a few cases that Putin regime failed at nationalization. The energy firms that fall in the top 100 largest companies in Russia *and* have not been nationalized are as follows: TNK-BP, Bashneft, and Novatek, Novatek being a case where the government has only achieved a blocking minority—25 percent—of shares. The other cases are Ufimsky NPZ and Ufaneftekhim, each being the 119th and 128th largest companies in Russia.

Looking into the trajectory the ownership structure of Russia's energy sector, one can find the most recent phenomenon, renationalization, as noteworthy. It is an arduous job to renationalize an economic sector that has already been privatized, for players that have gained large-scale economic benefit through privatization process would not welcome renationalization that would take away their spoils. To prevent and hinder renationalization, they would exert political influence they have gained through accumulation of huge wealth.³ Therefore, it draws an academic attention that Russia's energy sector had been renationalized to a not inconsiderable extent during 2004-2008 years.

Giving an eye to this fact, this thesis intends to study the renationalization of Russia's energy sector that occurred during Putin administration. More specifically, I aim to reveal underlying conditions of Putin's successes and failures in renationalization of the energy sector. The study will proceed with particular focus on failed cases for, as stated above, failure cases arouse more academic interest than success cases do, considering the fact that Putin and the federal government held a striking predominance over businesses.

There are quite a few studies attempting to reveal the causes of nationalization of energy sector in general, as well as specific causes of nationalization of Russia's energy sector during the Putin administration. However,

³ For more discussion about the phenomenon where temporal winners of economic reform try to maintain the status quo, see: Hellman, Joel S. 1998. "Winners Take All: The Politics of Partial Reform." *World Politics*, Vol. 50, No. 2, pp. 203-234.

most of the studies consider nationalization occurring in a country (Russia) as one event and thus fail to pay attention to in what manner nationalization actually occurred in a given country. In particular, there are almost none that take note of the fact that, even if nationalization has occurred in a country, there can be variation of success and failure at the level of each company; naturally, studies attempting to understand the causes of *failure* of nationalization are almost non-existent. Therefore, this study aims to reveal the political dynamics behind the renationalization of Russia's energy sector by analyzing cases—focus being on failure cases—of energy firm renationalization during Putin administration.

2. Organization of the Study

The rest of this study is organized as follows.

First, in chapter 2, I will critically review the existing literature on nationalization of energy sector and draw an analytical framework from the review. In reviewing the existing studies, I will first examine cross-national studies, which are mainstream in energy sector nationalization literature. Then I will go on to studies focusing on the case of Russia. The limitations of the existing studies can be summarized as follows. First, they fail to capture the complex political dynamics of renationalization of the energy sector that has actually taken place in Russia because each of them proposes only single explanatory variable. Thus, my study will sort out the ones that have explanatory ability regarding Russia's case from the variables

suggested by the existing studies and then include them into the analytical framework. Through this, my thesis will be able to systematize the existing discussion and capture the political dynamics of renationalization in a form closer to the reality. Second, the existing literature ignores difference inside the country by assuming country unit level when analyzing nationalization of energy sector. The only studies that deal with nationalization at the firm level are Markus (2008) and Lee (2010). They present “involvement of a foreigner” as the cause of failure in nationalization. However, they do not either synthesize success and failure cases in nationalization of Russian energy firms or attempt to theorize the factors of failure. Thus, this study aims to supplement this insufficiency.

Next, I will present an analytical framework devised for the purpose of better understanding the political dynamic of renationalization as well as systematizing independent variables presented by the existing literature. This analytical framework consists of motivating factors, enabling factors, and constraining factors. Motivating factors give the federal government intention to nationalize the energy sector or an energy firm and are comprised of leadership, international conditions, and domestic conditions. Enabling factors are circumstances that enable the federal government to put its intention into action and can be summed up as predominance of the state over business. Last, but certainly not least, constraining factors prevent the federal state’s attempt to renationalize from succeeding. The core constraining factor is interested party who suffers a loss in consequence of renationalization. This study forms two hypotheses: 1) the more interested parties are involved, the bigger the possibility that renationalization fails; 2) involvement of an interested party besides oligarchs that

has relatively advantageous position in power relations with the government increases the possibility of failure of renationalization.

In chapter 3, I will present an outline of how ownership structure in Russia's energy sector has been changing as a preliminary background before beginning in earnest to analyze the process of renationalization of Russia's energy sector during Putin administration. Russia's energy sector, having been nationalized with the Bolshevik Revolution and the establishment of the Soviet Union, had stayed state-owned for a long time under the command economy system. After the dissolution of the USSR, the energy sector, along with the other sectors, was privatized through means such as "loans for shares" under the economic reform policy of Yeltsin administration. However, not too long after this large-scale change in ownership structure, a number of energy firms got renationalized by Putin regime.

To apprehend the specific process of renationalization, in chapter 4, I will thoroughly analyze successful and failed cases through the analytical framework proposed in chapter 2. Successful cases include Gazprom, Yukos, Sibneft, and ITERA. Except for the case of ITERA, an individual owner's firm, in each of the cases the oligarch is the only type of interested party involved in the process of nationalization. Failed cases include TNK-BP, Bashneft, Novatek, Ufimsky NPZ, and Ufaneftekhim. These cases are more various than the successful ones: TNK-BP's first owner is BP, a foreigner; Bashneft had been under the ownership of Bashkortostan Republic and then got privatized into the hands of the regional elite's family; Novatek is a start-up company owned by an individual owner; and Ufimsky NPZ and Ufaneftekhim are subsidiaries of Bashneft and thus have followed the same

trajectory as Bashneft. The present study will closely examine what factors show a consistent difference between the successful cases and the failed cases.

Finally, in conclusion, I will summarize the arguments and analysis results of this study and discuss the limitations and implications of it. The main limitation of this thesis is that it is hard to draw a generalized conclusion due to the shortage of cases; however, all the results of case analyses support the earlier hypotheses. One of the implications this thesis has is that it shows even an authoritarian regime cannot always carry out policies freely the way it wills and can be restricted by the matter of legitimacy. The second implication is that it makes a contribution to comprehending the reality more accurately by systematizing the literature on nationalization of Russia's energy sector. Finally, this study will contribute to better understanding of the political dynamics behind renationalization of energy sector by giving attention to whether renationalization of each firm in a given country is achieved or not. Analysis through the framework my study offers will help us to have a better grasp of the complicated political process of renationalization where formal and informal means are both used widely and a number of interests collide at the same time.

II. Literature Review and Analytical Framework

1. Literature Review

There are a number of studies analyzing the factors leading to the nationalization of the energy sector. In the literature on ownership structure, studies on energy sector stand alone. This is so because 1) the sectoral characteristics such as large scale and security importance arouse high interest in the energy sector; and 2) global waves of nationalization of the energy sector that occurred several times have had a tremendous influence on the world economy and politics. In this chapter, I will first organize the factors of energy sector nationalization proposed by the existing studies into 1) cross-national studies and 2) case studies focusing on Russia and then review both of them critically. Next, I will emphasize the necessity to examine the political dynamics of nationalization at the level of domestic politics, which is what the existing studies overlooked.

1) Cross-National Studies

The oil price variable stands out among many explanations for nationalization of the energy sector. A number of researchers agree that increase in oil price causes nationalization, and rising oil price did empirically lead to global

waves of nationalization (Duncan 2006, Stevens 2008, Boyarchenko 2007, Guriev et al. 2011, Rajan and Zingales 2003, Thompson 2007). Several studies proved this by analyzing cross-national panel data (Duncan 2006, Boyarchenko 2007, Stevens 2008, Guriev et al 2011). In particular, Guriev et al. (2011) argue that not a simple increase but a sharp rise in oil price that can be called “oil price shock” causes nationalization.

Oil price per se does not automatically cause nationalization, but can contribute to the nationalization by affecting the preference or ability of the government which is the main agent of nationalization. For example, Guriev et al. (2011) point out that nationalization of oil sector can be explained by “state capture” theory. Let us define state capture as the exercise of influence by a business under the purpose of bringing on favorable result “through illicit and non-transparent private payments to public officials” (Hellman et al. 2003, 756). Then, in the event that oil price increases, oil companies get to receive more rents and, consequently, political leverage they can exert through illegal payments also increases. Fearing such an invasion by private enterprises into the political realm, the government might nationalize the oil industry to prevent such a situation (Guriev et al. 2011). In this case, oil price rise causes nationalization by increasing the state’s preference for state ownership. Meanwhile, Stevens (2008), who analyzes the nationalization wave in the Middle East, and Thompson (2007) who studies the recent nationalization in Russia, explain the mechanism through which oil price causes nationalization through the “obsolescing bargain” model. As the oil price increases, the government of an oil-producing country gets to have a larger bargaining power toward a foreign

oil company⁴ and simultaneously the cost and benefit calculation of the government also changes. As a result, renegotiation or unilateral modification is made in a form favorable for the oil-producing country and, by extension, renationalization may occur reversing the privatization of oil industry. Ultimately, in the obsolescing bargain model, the oil price has influence on both the ability and intention of the government to nationalize the oil industry.

Besides oil price, Boyarchenko (2007) points out economic variables such as real effective exchange rate, long-term foreign liabilities, and imports as determinants of expropriation of international oil companies (IOCs). According to Boyarchenko, the probability of expropriation rises when the value of money is higher, long-term foreign liabilities are more, and imports are less in the oil-producing country. Meanwhile, Cole and English (1991) observes that the more foreign direct investment, the larger the cost of expropriation. Moran (1973) reveals that international treaties have a restraining effect on expropriation.

While above mentioned studies explain the nationalization of the energy sector through international variables, there are studies paying attention to domestic economic, social, political factors. First, some studies argue economic depression raises the possibility of nationalization (Aguiar et al. 2006, Stevens 2008, Jodice 1980). It is also revealed that decline in oil production also increases the probability of nationalization (Boyarchenko 2007). Socially, impoverishment caused by war

⁴ When oil price rises, benefits an international oil company can gain through contract with an oil-producing country and through exploration of oilfields increases. Thus contract cancellation becomes a bigger threat for the international oil company and the oil-producing country can exert larger bargaining power.

(Jodice 1980) and low level in development of human capital (Gurieva et al. 2011, Kobrin 1984) increases the probability of expropriation of IOCs. Politically, it is shown that chances of nationalization are high when regime change takes place (Gurieva et al. 2011).

Then, returning to the subject of thesis, which of above examined variables have explanatory power in regard to the renationalization of Russia's energy sector during Putin administration? Starting from international factors, the increase in oil price holds as valid: the international oil price did rise by the time Putin came into Kremlin. On the other hand, foreign direct investment, long-term foreign liabilities, and international treaties are not appropriate for explaining Russia's case for there had not been much change in these variables around the time when renationalization began in Russia. This is the limitation of international political economic variables accounting for the difference between states in explaining changes in a given country: these variables typically do not change in a short period of time and thus can explain a dependent variable's variance among many countries at a specific point of time, but they are not proper for grasping the cause of change in ownership structure that takes place in a country. Meanwhile, decrease in real effective exchange rate generally matches the time when renationalization took place in Russia.⁵ Nonetheless, real effective exchange rate, which represents a given country's

⁵ According to the Central Bank of the Russian Federation, the value of ruble is rising overall in the real effective exchange rate starting from the second half of 2003. Available at http://www.cbr.ru/eng/statistics/?Prtid=svs&ch=Par_57946#CheckedItem (Search date: October 10, 2014).

purchasing power compared to foreign countries, holds valid only when the government expropriates *foreign* companies, since behind the exchange rate explanation there is the logic that when home currency has low purchasing power, the government cannot afford the cost of investment and thus it is difficult for the government to carry on expropriation (Boyarchenko 2007). However, when nationalization target is domestic companies as in the case of Russia, it is meaningless to calculate the investment cost the government faces through exchange rate.

Moving on to domestic factors, variables such as economic recession, decrease in petroleum production, social unrest, underdevelopment in human capital are not suitable for explaining Russia's case for economic and social conditions were generally good from the end of first term to the beginning of second term of Putin administration. Putin was enjoying a high approval rate thanks to the continuous economic growth since his seizure of power. He also had achieved relative social stability by strongly responding to conflict element in troubled areas such as Chechnya. In addition, in comparative perspective Russia has high level of human capital given its economic level. Finally, in terms of domestic politics, regime change too cannot explain Russia's nationalization for there was maintenance of power in hands of Putin rather than transfer of it in the given period.

What can be discovered in this review is that many studies assume that nationalization is expropriation carried on by the oil-producing country toward

foreign oil companies. This is understandable, since energy sector is empirically owned by IOCs unless it is under state ownership.⁶ Nevertheless, in the case of Russia, unlike the general trend, the government took back the energy sector not from foreign but from domestic private companies; therefore, like above mentioned, a number of international variables premising IOCs lose explaining power. As Jones Luong and Weinthal (2010) point out, there are important differences between ownership by domestic companies and ownership by IOCs and accordingly the process of strategic choice of the government differs. Thus, it is necessary to analyze nationalization acknowledging the difference.

Table 2. Ownership Structure in the Energy Sector

S1	State ownership and control
S2	State ownership and foreign control
P1	Private domestic ownership and control
P2	Private foreign ownership and control

Source: Jones Luong and Weinthal (2010, 7).

Jones Luong and Weinthal (2010) criticize the existing studies for considering ownership structure of energy sector as varying only between state ownership and foreign private ownership; the studies, thus, overlooked important details of reality. To overcome this limitation, Jones Luong and Weinthal (2010) classify ownership structure of energy sector into four categories: state ownership

⁶ For more information on difference in the number between foreign private ownership and domestic private ownership in global energy sector, see: Jones Luong and Weinthal 2010, *Oil Is Not a Curse: Ownership Structure and Institutions in Soviet Successor States*. 345-349.

and control (S1), state ownership and foreign control (S2), private domestic ownership and control (P1), and private foreign ownership and control (P2). It can be summed up as Table 2.

According to them, the first priority of the government is to maintain power through the support of voters, and the second priority is to maximize sovereignty in the energy sector. With such preference, the government as a rational player make choices according to ① availability of alternative sources of revenue (R) and ② level of distributional conflict that the government faces. When an alternative source of revenue exists (high R) and distributional conflict is severe (high C), the government chooses private domestic ownership (P1) in order to reinforce its supporters and reduce the resistance of its opponents. However, if distributional conflict tranquilizes in this situation (high R and low C), the government can nationalize the energy sector and maximize sovereignty without fearing of state capture by opponents. Ownership structure determined by levels of R and C is summarized in Table 3.

Applying this model to Russia, one can get a clear explanation for nationalization of Russia's energy sector starting from the end of Putin's first term and throughout his second term. In Russia's case, the profit could be made not only from the energy sector, but also from the huge industrial sector (high R); meanwhile, there were two social problems: separatist movements occurring in several areas of its territory, and parliament dominated by the communists (high C). Thus, Yeltsin administration had to choose "domestic private ownership of the energy sector" (P1). Nevertheless, conflicts lulled and dominance of the government was consolidated

(lower C) during Putin’s first term, and Russia was able to go back to state ownership and control (S1).

Table 3. Domestic Determinants of Ownership Structure

		Level of Distributional Conflict (C)	
		Low	High
Availability of Alternative Sources of Revenue (R)	High	S1	P1
	Low	S2	P2

Source: Jones Luong and Weinthal (2010, 304).

However, Jones Luong and Weinthal too cannot answer the main puzzle this thesis aims to answer: during the same period of time, why did Putin’s government succeed in one and fail in other for nationalization of domestic firms? when did Russian government succeed and failed in nationalizing firms? This is a limitation that cross-national studies have in common. In other words, they cannot explain different results inside Russia under the same external conditions—whether international or domestic. However, like I mentioned in introduction, the change in ownership structure of Russia’s energy sector that took place during Putin administration went through a too complicated process to be simplified as “nationalization.” In conclusion, there is a need to examine studies focusing on Russia’s case because in Russia, unlike the general case, renationalization of the energy sector was carried out not in regards to foreign companies but in regards to domestic enterprises, and it is impossible to explain success and failure of nationalization that took place at the same time through external conditions.

2) Studies on Russia's Case

(1) Leadership

Among the existing studies laying emphasis on Russia's case to explain nationalization of the energy sector, perspectives focusing on leadership can be categorized into two groups: first ones stress ideology or policy line, while second ones stress leader's individual characteristics.

First of all, one of key ideologies of leadership causing nationalization is nationalism (Klapp 1987, Stevens 2008, Chernykh 2008, Chernykh 2011). This can be simple nationalism occurring along with xenophobia (Stevens 2008), or economic nationalism which prefers either government involvement in economy (Stevens 2008) or economic growth led by the state (Chernykh 2008, Chernykh 2011, Locatelli 2006, Tompson 2007). In particular, Chernykh (2008, 2011) considers the political logic of making strategic sectors under state ownership as Putin administration's motive for renationalization of the energy sector. In fact, Putin, long before he became the president of the Russian Federation, had believed that it is necessary to make Russia take a leap once again as a great power in on the world stage through nationalization of the energy sector. The "National Champions" project⁷ Putin administration drove aggressively had been already mentioned in his

⁷ The National Champions project is Putin administration's project that the government controls and nurtures enterprises that can play an important strategic role in order to establish Russia again as a great power. This project is based on Putin's belief that large companies in strategic sectors should put promoting the state's interest above making a profit for themselves.

dissertation (Putin 1997). Meanwhile, turning eyes outside, the base of foreign policy during Putin's second term can be called "great power assertiveness" (Tsygankov 2013). There are some arguments that the Russian government carried out renationalization of the energy sector to use oil and natural gas as tools for realizing such a vision (Locatelli 2006).

According to the second group, renationalization of energy sector was caused by the authoritarian ruling style of President Putin. Representatively, Goldman (2008) names renationalization phenomenon during Putin administration as "the return of the czar" (Goldman 2008, 93) and, describing Putin regime's attack on Yukos, he expresses that "Khodorkovsky was acting like a king, not a subject" (Goldman 2008, 112), which made Putin out of temper. Treisman (2011) shows how Putin did not respect democracy and ruled in authoritarian manner (Treisman 2011, 80-122) representatively with the expression he "did not like elections" (Treisman 2011, 71).

However, authoritarian inclination of a political leader as an individual is too common to use as an independent variable explaining a phenomenon. Desire for power is found in every rational player who wants to maximize his or her self-interest. Overall, explanations based on characteristics of leadership have a limitation in the sense that there hardly can be found a political scientific implication: one cannot draw a generalized theory from explanations for renationalization through the belief or character of a political leader or leadership.

(2) Structure

Some studies explaining nationalization of energy sector pay attention to structural variables. Guriev et al. (2011) has revealed that, besides oil price, weak political institution raises the probability of expropriation of IOCs. They regard political institution in the same light as democracy, or checks and balances on the government. Their explanation of correlation between political institution and possibility of expropriation goes as follows: when political institution is weak, i.e. checks on the government do not work right, it is easier for the government to carry on nationalization with the purpose of gaining short-term benefits. Explaining renationalization phenomenon in Russia, Thompson (2007) argues that industrial structure inherited from the former Soviet Union, in interaction with a weak institution, strengthens the government's preference for state ownership. On the one hand, the energy sector, a leading sector in Russia's economy, has a high access barrier because of its sectoral characteristics such as capital intensity, asset specificity, and economy of scale, and consequently a small number of large companies got to monopolize this sector. These large enterprises tend to be demanding toward the state; this tendency is resulted from the combination of political power gained by the scale of the companies and resistance due to their asset specificity. On the other hand, Thompson (2007, 5) considers institution as "administrative, extractive and regulatory capacities." His logic is that when institution is weak, the state, incapable of managing the unreasonable demands of owners of large companies within the bounds of lawful methods, is easily tempted by the option of state ownership (Thompson 2007, 5; Woodruff 2005).

The biggest problem this kind of structural explanations have is that they cannot account for changes. *Institutions* such as unconsolidated democracy or insufficient regulatory capability do not change in a short period of time. Thus, it is difficult to explain nationalization as an event occurring at a specific point of time through institutions. In other words, an attempt to explain nationalization through structural factors, runs a risk of ending up as an ex post facto explanation. Also, as pointed out in the section 1, structure is an external condition and thus cannot explain success and failure of nationalization under the same structure.

(3) State-Business Relation

Finally, a few studies explain nationalization through state-business relations. According to Rajan and Zingales (2003; recited from Guriev et al. 2011, 318-319), the government carries out nationalization in order to prevent state capture by business. In contrast, Yakovlev (2006) considers nationalization during Putin administration as a part of business capture by the state. Strategies of Russian economic actors in 1990s, in interaction with the absence of democracy and aversion of citizens toward the disorder of 1990s, led to predominance of the state in form of “bureaucratic consolidation.” Nationalization such as the Yukos affair is considered as a phenomenon of business capture. Similarly, Thompson (2007) argues that the Russian government has been having preference for state ownership of energy sector from the start. In 1990s the state was too weak and thus it was forced to compromise its preference in relation with oligarchs and privatize the energy sector; when the state gained more power during Putin administration, it renationalized the energy sector according to its original preference. This change in power relation is due to

higher approval ratings of Putin caused by economic growth and a low opinion of oligarchs who were considered to have accumulated an enormous amount of wealth by unlawful means. These explanations are similar to the one offered by Jones Luong and Weinthal (2010), who argue that nationalization occurred because the state were able to have bigger freedom as a result of changes in domestic circumstances.

It is noticeable that the existing studies focusing on state-business relation are based on two contrary logics. Thus, a question arises which one of them is relevant in renationalization of Russia's energy sector. Also, if one extends the concept of state-business relation from relation between the state and the business as a whole to one between the state and each enterprise, then it will be able to help explain the variance of success and failure in renationalization drive during Putin administration.

3) Limitations of the Existing Literature

Overall, the existing studies have two main limitations: first, each of them presents only a single variable; and second, they premise state unit level.

First of all, each of the existing studies offers only a single variable such as international or domestic condition, leadership, structure, state-business relation and thus fail to capture precisely the political dynamics of renationalization of the energy sector. The federal government attempting renationalization and enterprises and other interested parties responding to the attempt are all rational actors who draw up

strategies in complicated reality. Therefore, if one tries to explain renationalization of Russia's energy sector only with a single variable, there is a risk of distortion and excessive simplification of the complex reality of renationalization process. This thesis, paying attention to the fact that variables presented by the existing literature can be categorized into two groups—change in preference and change in ability to carry out such preference, reflects this in the analytical framework.

Most importantly, the existing studies have a fundamental limitations in that they all consider renationalization as occurring at state level. Their dependent variable is whether nationalization of the energy sector has occurred in a country, but in reality it is impossible for nationalization to be achieved completely, and there also must be variation in the degree of achievement in a given country. The existing literature overlooks this fact and thus does not analyze the causes of nationalization success and failure at the corporate level.

The only studies analyzing renationalization failure at the corporate level are studies on the change in Russian ownership structure by Markus (2008) and Lee (2010). According to Lee (2010), the major shareholder transforms his or her enterprise into the Anglo-Saxon model as a survival strategy in response to the more powerful state. In the process, the enterprise attracts foreign capital and thus foreigners become major shareholder and play the role of defending the firm from state's acquisition attacks. In this manner, some of Russian companies were able to avoid renationalization. Markus (2008) names this as “corporate governance as political insurance.”

In these cases it is worth to note that when there was a third interested party involved, the government fails to renationalize easily. However, these studies do not synthesize and systemize successful and failed cases of renationalization of Russian energy companies. Also, they do not theorize the involvement of third party as a factor of failure in renationalization. Therefore, in the following section I will draw hypotheses that ‘interested party’ has an influence on failure in renationalization attempt by the Russian government. In addition, I will pick out the variables, from the ones that are examined, relevant to Russia’s case and then organize them into motivating factors, enabling factors, and constraining factors and use them as an analytical framework for catching the political dynamics of renationalization. In particular, I will classify interested parties involved with the corporations which were targets of renationalization into several categories and then examine how each actor as constraining factor contributed to the failure of renationalization attempt.

2. Analytical Framework

Among the existing studies explaining the nationalization of the energy sector, each presents a variable it considers as important, but they do not make it clear where precisely the variable is positioned in relation to nationalization. In addition, more essentially, the existing literature overlooks the political dynamics that determines the fate of nationalization of a particular company at the domestic level. As a result, it is hard to grasp precisely which variables played what roles in the process of renationalization of petroleum and natural gas sectors during the Putin

period and under what conditions nationalization attempts succeeded or failed. Therefore, in this study, I will gather variables proposed by the existing studies and propose new variables I judge to be necessary and then categorize them into three groups: “Motivating Factors”, “Enabling Factors”, and “Constraining Factors.” Integrating these factors into an analytical framework, I will analyze in depth how each factor affected renationalization and what kind of political dynamics each renationalization attempt by the government went through. In particular, through constraining factors I will find out which companies the government fails to nationalize in the midst of renationalization wave, which has been overlooked by the existing literature.

1) Motivating Factors

To more clearly understand the process of renationalization of Russia’s energy sector, there is a need to separately consider the reason why the government wanted to carry out nationalization and the circumstance that made it possible to meet its intention. First, the variables that caused the Russian government to have the intention of renationalization are to be named as “motivating factors.” From existing literature study, those variables that are suitable for describing the Russian case and correspond to the motivating factors are as follows.

(1) Leadership

- Economic policy line of the government: economic nationalism
- Foreign policy line of the government: “great power assertiveness”
- Putin’s attitude toward democracy: authoritarian inclination

(2) International Conditions

- Rising oil prices
- Non-recognition of Russia by the West
- Decrease in Russia’s influence in the CIS region

(3) Domestic Conditions

- Weak institution: low level of administrative, extractive, and regulatory capacities of the government
- Importance of a given firm: size and performance
- Attitude of a given firm: political (political opposition, state capture) and economic (tax evasion, draining of national wealth)

(1) Leadership is organized from the variables presented by the studies focusing on the leader and leadership. It can be divided into “policy line” and “leader’s inclination.”

Policy line. Putin administration’s economic policy line is economic

nationalism represented by “National Champions.” According to this policy line, it is necessary for the state to control the energy sector—one of strategic sectors—in order to make Russia an economic superpower as a government-led project. Meanwhile, the foreign policy keynote during Putin’s second term, when renationalization was actively carried out, is “Great Power Assertiveness” (Tsygankov 2013). To use the oil and gas as a tool for rebuilding Russia as a great power in relation to the West and neighboring states, the state as a necessity should be able to control oil and gas sectors. In sum, policy lines at that time required usage of energy as a tool for fulfilling the goals; therefore, policy lines provided motivations for renationalization of the energy sector.

Leader’s inclination. Leader’s inclination can be names as Putin’s authoritarian inclination. If Putin as the political leader preferred authoritarian ruling style and predominance of the state over society and business, then his character itself was a motivation for the Russian government to renationalize the energy sector.

In (2) International Conditions, I have included such variables as oil price rise, non-recognition of Russia by the West, and decrease in Russia’s influence in the CIS region. The impact of oil price rise has been confirmed in the literature review. The second and third variables are conditions to which Tsygankov (2013) attributes the shift of Russian foreign policy line from “pragmatic cooperation” of Putin’s first term to “great power assertiveness” of the second term. From a wider perspective, such a change in international circumstances, by shifting Russia’s foreign policy to direction requiring more energy resources, may have provided an incentive for nationalization of oil and natural gas.

The last category is (3) Domestic Conditions, and it includes such variables as weak institution, importance of a firm, and attitude of a firm.

Weak institution. It means weakness of administrative, extractive, and regulatory capacity in the sense Thompson (2007) describes it, and it should be distinguished from institution as democracy in the sense Guriev et al. (2011) use the term. If taxation is difficult, then it would be easier to own and control the energy sector and gain revenue directly, even if management cost heightens. This is a clear motivation for nationalization.

Importance of a firm. This refers to economic significance such as the size or performance of a particular firm. If a given firm is small and does not make much profit, then the government would not feel the need to go through the trouble of nationalizing the firm. In contrast, if a given firm is large and very profitable, then the benefit of nationalization would be much larger than the cost of it, and thus the government would have an incentive for nationalization.

Attitude of a firm. The “fear for state capture” variable mentioned in literature review corresponds to this category. If a firm attempts political opposition or state capture using its accumulated wealth, or habitually evade taxes or drain national wealth for its own personal interest, it can provide a motivation for attacking or nationalizing the firm.

Above can be summarized as Table 4.

Table 4. Motivating Factors

Leadership	International Conditions	Domestic Conditions
Economic policy line	Oil price rise	State's weak capacity
Foreign policy line	Non-recognition by the West	Firm's importance
Leader's inclination	Decreasing influence in CIS	Firm's attitude

2) Enabling Factors

Just because motivation for nationalization is formed, it does not necessarily lead immediately to act of nationalization. For this to happen, an environment is needed that makes government able to implement nationalization. I will call this environment as “enabling factors.” Variables that enabled nationalization of Russia’s energy sector are as Table 5.

Table 5. Enabling Factors

State-Business Relations: Predominance of State over Business
Oil price rise
Weak political institution
Company's low legitimacy
Company's experience of being under state ownership

Enabling factors can be summarized as the statement that relative positions of the government has become dominant in the power relation with the business. Each variable plays the role of reinforcing such a power relation.

First, if the Russian economy, which relies heavily on oil exports, meets a boom due to *oil price rise*, level of public support for the government will increase. With the high approval rating, the discretion of the government becomes wider, and thus the government can put into practice nationalization more easily.

In the second variable, *weak political institution*, political institution means check and balance against the regime as Guriev et al. (2011) define it. If balance and check by the legislature and the judiciary against the government are not successful, then degree of freedom of the government enjoys increases; simultaneously, it becomes easier for the government to implement a nationalization policy.

I included *company's low legitimacy* since it is, unlike two variables mentioned above, a variable that positions the firm in an inferior place, rather than positioning the government in a superior place. If the owner of a company has accumulated wealth in an unlawful manner, such as asset-stripping and the government and the citizens are aware of this, it will locate the company in the inferior place in the power relationship with the government. Moreover, in this case, the government also would gain legitimacy in trying nationalization through such means as delinquent tax payment demand.

Finally, a *company's experience of being under state ownership* also positions the government in a superior place. If a company used to be owned by the state, it means that it has passed through the privatization process to become the current state. Privatization in Russia mostly was done in unfair way, and thus the legitimacy of privatized companies are weakened. In this respect, a company's experience of being

owned by the state to a large extent covariates with the third variable “low legitimacy of a company.” On the contrary, the legitimacy of government is enhanced for it can adapt the logic that it is taking back what was initially state-owned. In addition to this, if a company was owned in the past by the state, it is likely that state share remains to some extent even after privatization. If it is the case, then it would be practically easier to achieve nationalization by increasing state shares in the stock.

3) Constraining Factors

While a simplistic view that Russia’s energy sector has been renationalized is dominant in the literature, the question about the degree of achievement of nationalization of each company at the domestic level has not been paid much attention. In particular, research on the cases of nationalization failure is almost none. However, why some companies are nationalized while some companies are not is a very interesting question, the answer to which may provide important implications for political economy.

For a company that has not been renationalized, there may be two interpretations. The first one is that the Russian government did not intend to nationalize the company from the beginning, and the second is that the Russian government tried to nationalize the company, but failed. This study aims to treat the latter. If the government did not have the intention to nationalize a particular company, it can be simply explained through the absence of motivating factors. In

contrast, if the government failed to nationalize despite its attempt to do so, the possible cause of this cannot be sufficiently explained through the motivating factors and enabling factors alone.⁸ Therefore, this study focuses on the cases where the government attempted and failed to nationalize and excludes the cases where the government did not try nationalization in the first place.

To explain renationalization failure, it is necessary to find elements that act only on the failure cases or exist only in the failure cases. In contrast with the enabling factors, I call these elements as “constraining factors.” This study argues that when the constraining factors affected the process of nationalization, renationalization was led to incompleteness or failure. Constraining factors proposed in this study are as in Table 6.

Table 6. Constraining Factors

Type of Interested Party
Oligarch
Foreigner
Regional government
Individual owner

In other words, this study considers the determinants of renationalization failure as follows: the presence of the interested party (parties) who will be subject

⁸ The absence or lack of enabling factors too can explain failure at renationalization. That is, if enabling factors are weak or non-existent in a failure case, the cause of failure can be found there. However, if enabling factors do exist in a failure case like in a success case, then additional explanation is needed.

to damage as a result of renationalization, and the type of interested party involved. More specifically, I would like to present the following two hypotheses.

Hypothesis 1. The more interested parties are involved in the process of renationalization, the more likely that the government fails to renationalize.

Hypothesis 2. The influence of an interested party varies depending on the type of it. The more comparative advantage the type of interested party has in relation to the government, the more likely that the government fails to renationalize.

Both hypotheses intuitively seem to make sense. First in regard to the hypothesis 1, if more interested parties that will be subject to damage when the central government nationalizes a particular company exist in addition to the owner of the company, it can be predicted that because of their resistance or sabotage, increases probability that the government's attempt of renationalization will fail. Next, regarding hypothesis 2, if interested parties that will be subject to damage as a result of nationalization have relative advantage in relation to the state, either institutionally or on the basis of the legitimacy, then they will be able to more effectively resist or interfere the attempt of renationalization. Therefore, the more powerful type of interested party, the higher the possibility of renationalization failure.

Then how do you find out what position each interested party occupies in the power relation with the government? For the sake of analysis, this study typifies interested parties involved in renationalization of Russia's energy sector into five categories.

(1) Oligarch

A Russian oligarch “denotes a businessman [...] who controls sufficient resources to influence national politics” (Gurieva and Rachinsky 2005, 132). Typically, Russia's new conglomerates that have been able to gain enormous wealth in the process of privatization during the transition period are called oligarchs. As Hellman (1998) famously pointed out, oligarchs, winners of the reform process, would try to consolidate and protect their spoils by exercising the influence they have obtained in the process. The federal government's attempt to renationalize the company an oligarch owns is act of taking away the oligarch's spoils, so it can be predicted the oligarch would resist such an attempt.

The oligarch is assigned the first category of interested parties for it is the most common type of actor in the energy sector. During the former Soviet Union all the economic sectors were under centralized control, so there is a high possibility that large-sized companies originally were under state ownership. In particular, oil sector natural gas sector by sectoral characteristics require a huge initial investment; therefore, even lower is the probability that there could be nascent large companies

in these sectors. In other words, in most of the energy companies, major interested party can be seen as the oligarch.

What is noteworthy is that the process of privatization of many energy companies was done through opaque and unlawful means (Goldman 2008, 55-72). If it is the case, the federal government can gain the legitimacy of reversing the wrong privatization. Or otherwise, the logic of bringing back what once was state assets can be applied. Therefore, oligarchs by definition can be expected to have a relative vulnerability in power relation with the government.

Sometimes the term “oligarchs” refers to all the rich and powerful entrepreneurs in Russia, but in this study, for the sake of analysis, an oligarch is narrowly defined as an entrepreneur who made the state assets his or hers in the process of privatization. Also, this studies follows Goldman (2008, 58) and divides oligarchs into two groups: first, former government officials, or *nomenklatura*, who “simply took over ownership of the state properties that they had been managing as agents of the government” (Goldman 2008, 58), and upstart owners who “emerged from a seamier stratum of black market operators and money changers” (Goldman 2008, 58).

(2) Foreigner

Switching the corporate governance of a company into the Anglo-Saxon Model and involving foreign minority shareholders, the large shareholder of the company can protect his or her company from political attacks from the state (Markus 2008, Lee

2010). TNK-BP is the case where in interested parties are included foreigners, as well as oligarch.

(3) Regional government

Regional governments in Russia had traditionally held strong power. Although its authority was greatly reduced by the political reform of Putin administration, the regional government is still one of powerful actors (Locatelli 2006, 1080-1081). Therefore, one may predict that when the federal government in the process of acquisition must confront not only an oligarch, but also a regional government, then renationalization would be more difficult. Bashneft, having been under the ownership of a regional government, corresponds to this category.

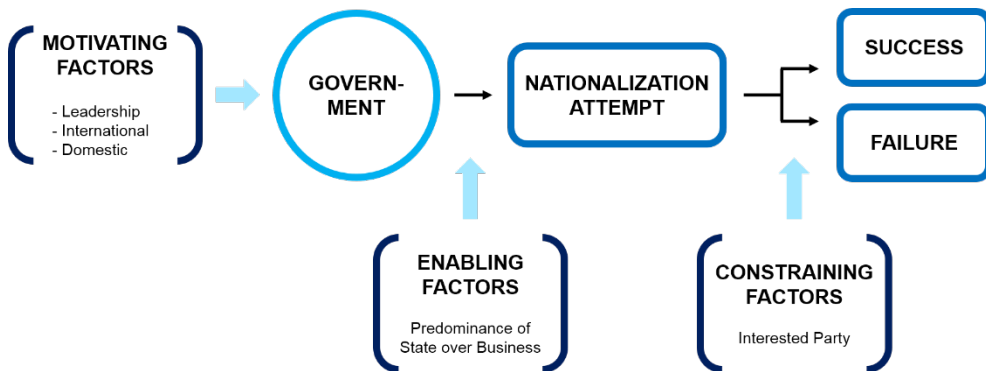
(4) Individual owner

Although rare, there do exist some new-starter companies in the energy sector that have not been privatized. I call the owner of such a firm, in distinction from oligarch, an individual owner. A firm without the experience of being under the ownership of the federal government, the government cannot either have the legitimacy of “cancelling the privatization that was carried out through unlawful means” or set out a logic of “taking back what originally was mine.” Therefore, in regard to renationalization, an individual owner is placed at a more favorable position in relation with the government than an oligarch is. Among the failure cases, Novatek, in which the government gained only blocking minority, is an example of such a start-up firm founded by an individual owner.

4) Framework for Analysis

To accurately grasp how variables in each category acted on renationalization of Russia's energy sector, I have derived an analytical framework as Figure 1.

Figure 1. Analytical Framework: Political Dynamics Behind the Renationalization of the Energy Sector



First, variables that correspond to the motivating factors, provide the Russian government an incentive to start nationalization. If motivations do not exist, even if being in the situation where it is very easy to nationalize firms, the Russian government, since it does not have the intention to do so, would not start nationalization. In other words, motivating factors play the role of *pushing* the government.

However, having an intention to renationalize is not enough; to make it happen, the government needs to have the capacity to do so. “Enabling factors” are variables playing the role of *opening the way* so that the government, which has the incentive to renationalize caused by motivating factors, can actually start

renationalization.

If there is no interference in the subsequent process, the Russian government will succeed in renationalizing the target firm. However, in practice, there exist cases where the Russian government tried but failed to nationalize energy firms. This thesis considers the cause of renationalization failure as “constraining factors.” Because constraining factors obstructed the path to success, the Russian government could not help but go the path of failure.

It should be noted is that constraining factor are not the only variables that lead to failure of the attempt to nationalize. In other words, it is possible that motivating factors and enabling factors also indirectly contribute to failure of attempt to nationalize. If there are motivating factors and / or enabling factors in a particular case, but they are not so strong, only low level of constraining factors can easily lead nationalization attempts to failure. For example, if the economic importance of a particular company is trivial (low motivating factor), the federal government may give up nationalization easily in response to only small resistance of an interested party.

Each variable does not always act independently, but sometimes affect renationalization in interaction with each other. For example, a rise in crude oil price, by promoting Russia’s economic growth, increases the Russian public support of Putin. This means that the relative power of Putin increases in relation to the oligarch (enabling factor). On the other hand, an increase in oil price, also forms preferences for state ownership of the energy sector (motivating factor). In other words, the

variable “a rise in crude oil price” can strengthen both the motivating factor and the enabling factor.

Finally, it is necessary to distinguish the variables explaining the renationalization of a particular company from the ones accounting for the whole wave of renationalization of energy sector that occurred in Russia. For example, the “importance of a company” and the “attitude of a company” from the motivating factors, and “low legitimacy of a company” from the enabling factors are variables that can vary in each case of company. In contrast, such variables as “policy keynote” and “rise in crude oil price” from motivating factors, as external conditions given in that time, correspond to the group of variables that explain the whole wave of renationalization.

Using the analytical framework described above, this study will reveal the political dynamics of renationalization by comparative analysis of the failure and success cases.

3. Subject and Method of Analysis

1) Successful cases

To see whether motivating factors and enabling factors in fact have influenced renationalization, and whether constraining factor actually were weak or none when renationalization succeeded, I will analyze the cases of oil and gas companies that

were nationalized during Putin administration. The objects of analysis are Gazprom, Yukos, Sibneft, and ITERA. I will follow closely the process through which the Russian government has acquired ownership of each firm and find out in what manner motivating factors and enabling factors have affected realization of renationalization. Also, if it turns out that in these cases constraining factors that exist in failure cases are absent, it will support the validity of constraining factors.

While selecting success cases, I have chosen the cases where the state ended up with majority of shares. I have applied such a criterion based on judgment that the case where the state has gained majority is a more certain success of renationalization than the case where it has gained only blocking minority.

2) Failed Cases

To verify the validity of the two hypotheses deduced from the constraining factors, I will analyze five cases where the Russian government failed at renationalization. While selecting failure cases, I have chosen cases where the government failed at full nationalization, i.e. where the government failed to occupy the majority of shares. In other words, I included into the failure category such cases as Novatek, where the government gained blocking minority—25% of shares.

The first case is TNK-BP. TNK-BP is the sixth largest company in Russia; its size is the biggest next to Gazprom and Yukos among all the success and failure cases. The second is Bashneft. At first it had been under regional government's

ownership and was privatized into the hands of the family of political elite in the region. Later it was taken over by a private company called Sistema. In cases of TNK-BP and Bashneft, the Russian government failed to gain even blocking minority.

The third case is Novatek. As one can see in Table 1, unlike the other success cases, the final government shares in Novatek is not majority, but blocking minority. This thesis considers this as failure at fulfillment of renationalization and thus categorizes this case into failure group.

The last two cases, Ufimsky NPZ and Ufaneftekhim, are respectively ranked 119th and 128th in size. It is relatively far from the success cases which range between 1st and 70th in ranking. It is possible that the Russian government did not have high incentive for nationalization of these companies for their economic importance is relatively low (low motivating factor). Therefore, these cases cannot show much power in reinforcing the validity of the constraining factors. However, if it turns out that in these cases the constraining factors are weaker than in the other failure cases, then they will support the secondary argument of this thesis: besides high level of constraining factors, low level of motivating factors and enabling factors also can indirectly contribute to renationalization failure.

I will thoroughly trace down the process through which nationalization progresses and ends up as failure and check the validity of above presented hypotheses. To put it concretely, I will examine whether renationalization attempt is more likely to be frustrated when there are more than one interested party involved,

and when the interested party is other actor than oligarch. It is necessary to bear in mind that just because renationalization is not achieved one cannot always say it is due to constraining factors. Thus, attention should be given to the level of motivating factors and enabling factors when analyzing the political dynamics of renationalization.

In conducting analysis, I will use such materials as: news articles in Russian and English about state acquisitions that are selected as cases of this study; the existing studies elaborating the process of renationalization of Russia's energy sector, and websites and reports presented by the relevant companies. In regard to news articles, there can be difference in perspective or information between inside and outside Russia; thus I have decided to go over both. Meanwhile, along the existing literature, I refer to studies depicting the process of state acquisition of the firms that are cases of this thesis, even if their topic is different from mine. Finally, I make use of websites and reports presented by case companies in order to check objective facts such as their size, economic performance, ownership structure, and history.

III. History of Ownership Structure in Russia's Energy Sector

The ownership structure of Russia's energy sector has gone through several changes. The overall history can be summarized as nationalization, privatization, and then renationalization waves. Russia's energy sector was nationalized shortly after the Soviet Union had been established. After the dismantlement of the Soviet Union, the sector was privatized by Yeltsin regime. Later on, it was nationalized again starting from the end of Putin's first term. The target of this study is the last wave: renationalization. In this chapter, I will briefly examine the ownership structure evolution of Russia's energy sector in order to better understand the overall context of the structural changes prior to the analysis of the renationalization wave.⁹

1. The Soviet Union (1922-1991): Nationalization

The petroleum production in Russia dates back to the 19th century. At that time, oil was produced mainly in the area of today's Azerbaijan (Goldman 2008). The first oil processing company in Russia was built in 1857, but until 1873, the

⁹ For more detailed information, see Goldman (2008) and Travin and Marganiya (2010). Goldman (2008) thoroughly describes Russia's petroleum industry from the Imperial Russia through Putin Administration, while Travin and Marganiya (2010) provides a brief overview of the Russian oil industry throughout the Soviet Union period.

development of oil industry lagged due to state monopoly on oil (Travin and Marganiya 2010, 24). In 1873 the privatization of land plots started, and at the same time, oil deposits began to be sold at auction to private businesses (Travin and Marganiya 2010, 24). At that time, the development of the petroleum industry in Russia was led by the Swedish Nobel family. They for the first time brought European technology and capital into Russia's oil industry. The Nobles started to sell and transport oil products to Europe in the mid-1880s and became one of the major players in the European oil market by the beginning of the twentieth century.

However, such a position did not hold for long. In the 1900s, revolutionary movements in Russia hit the Nobles hard, and they could not return to the former position until right before World War I, which in turn led to the new revolution in Russia. In 1917, the Bolsheviks took power, and they immediately nationalized industrial enterprises, including oil companies, of course. This state ownership of energy sector in Russia lasted for about 70 years under the command economy of the former Soviet Union (Travin and Marganiya 2010, 26).

2. Yeltsin Administration (1991-1999): Privatization¹⁰

In 1991 when the USSR dissolved and a regime with liberal orientation came to power, Russia started to privatize economic sectors that had been under state control. Yeltsin decided to privatize so far centrally planned economy in order to win

¹⁰ For more detailed information on this period, see Leem (1999) and Yun (1997).

political support. The authorities issued every citizen a 10,000-ruble voucher redeemable against shares of the state enterprises being privatized. The original aim was to distribute among citizens spoils left after dismantling the USSR, and thereby make them willingly accept a new market economic system. However, at this time the Russian people did not have any experience of a free market economy, and thus did not understand the value of vouchers. As a result, most of previously state-owned enterprises ended up concentrated into the hands of only a few. These few people were the Russian “oligarchs,” their origins being either former government officials or black market operators (Goldman 2008, 57-58).

The energy sector was also the object of privatization. This is not a general phenomenon. In transition economies, governments usually keep “strategic” sectors under state control even when they carry out privatization as a tool to create a free market economy. The petroleum sector is the representative of such strategic sectors. Nevertheless, Russia’s energy sector went along with the process of privatization of 1990s.

In the oil industry, the first step of privatization was “to transform the Ministry of Fuel and Energy into a joint stock company called Rosneftegaz” (Goldman 2008, 61). Soon after this, Rosneftegaz was subdivided into several independent entities. Vagit Alekperov, who then was minister of the Petroleum Industry, set aside the Langepaz, Urengoi, and Kogalym oil fields and combined them into LUKoil. After doing so, he himself became the CEO of LUKoil. Following the dissolution of the USSR, breaking up the Ministry of Fuel and Energy sped up: “In November 1992, Rosneftegaz was reduced to Rosneft. Two more companies,

Yukos and Surgutneftegaz, were spun off in 1993” (Goldman 2008, 61).

The major means of privatization in the oil industry was the controversial “loans for shares.” This plan was originally proposed by Vladimir Potanin. The plan goes as follows:

... [S]everal of the banks newly opened by the oligarchs would offer to lend the government money so it could pay its bills. As collateral for those loans, [it was] proposed that the state turn over shares of stock in several of the country’s petroleum companies that had not yet been fully privatized. Once the state had collected its taxes, the loans would be repaid and the collateral—that is, the shares of stock—would be returned by the bank to the state. If for some reason the loans could not be repaid, the banks, on behalf of the state, would then be authorized to auction off the collateral they were holding. After they had taken out the money they were owed, the banks would then turn the remaining proceeds over to the state (Goldman 2008, 64).

The process of loans for shares overflowed with fraud and falsification. First of all, the government’s chances for pay its debts off were scarce. It was no big surprise: where could the government gain profit from when the oligarchs, compromising the largest part of the economy, did not pay taxes? Under such circumstances, the auctions set by banks were rigged most of the time. People who

could participate in bidding were extremely limited and there were a number of cases where the winner of an auction was the bank itself that held the auction or a subsidiary company of the bank. Also, many times the winning bid was surprisingly low. For example, Mikhail Khodorkovsky became the owner of Yukos, “bidding a mere \$309 million. (Not pocket change but cheap for even a poorly operating oil company. It soon had a market value of \$15 billion)” (Goldman 2008, 64).

Unlike the oil industry that was tore into pieces, the gas industry was intact. This kind of difference seems to come from the peculiar feature of natural gas. In Russia, oil is spread throughout the territory, whereas natural gas is relatively concentrated. Also, compared to oil which is comparatively easily processed and transported, gas is more unmanageable and transported only through pipelines. Therefore, running a gas business requires substantial capital and infrastructure, which is why the gas sector has a far higher entrance barrier.

In 1989, “the Ministry of the Gas Industry transformed itself intact into a corporation called Gazprom” (Goldman 2008, 59). This transformation kept the Gas Ministry safe without breaking it up and giving it away like the Petroleum Ministry did. The state now controlled the gas industry not directly but through its shares of stock. The state, who initially owned one-hundred percent of Gazprom’s stock, sold some of its shares to private businesses little by little. However, the state still was the major share owner, and therefore “the minister of the Gas Industry, Viktor Chernomyrdin, made himself president and CEO of this entity” (Goldman 2008, 59). In 1992, Yeltsin converted Gazprom from a fully state-owned joint stock company into a private joint stock company: now Gazprom’s shares could be owned by not

only the state, but also private parties. By 1994, 33 percent of Gazprom's stock shares "had been purchased by 747,000 members of the public" (Goldman 2008, 60). Gazprom employees bought additional 15 percent of the shares. The state retained 40 percent of the stock (Goldman 2008, 60). When Chernomyrdin became the prime minister in May 1992, his deputy, Rem Vyakhirev became chairman and CEO of Gazprom in Chernomyrdin's place (Goldman 2008, 60). With such close ties to the government, Gazprom escaped strict regulation by the state: it "paid very little in the way of taxes or dividends to its principal shareholder (the state)" (Goldman 2008, 61).

The oligarchs that had gained large-scale wealth in the process of this extensive privatization rose as strong players who not only dominated the Russian economy, but also exerted a strong influence on politics. Among them, the oligarchs in the gas and oil industries were of particularly great influence in the political arena. This was possible because the energy sector by nature was large in scale and thus provided the oligarchs with much more resources than other sectors did. A couple of typical examples of such energy oligarchs are Mikhail Khodorkovsky of Yukos, an oil and gas company, Boris Berezovsky and Roman Abramovich of Sibneft, an oil company.

3. Putin Administration (2000-2008): Renationalization¹¹

As we could observe in Section 2, the grand-scale privatization of energy sector, which had taken place during the 1990s, got reversed in the 2000s when Putin regime pushed ahead with renationalization of oil and gas industries. On this phenomenon, Thompson (2007, 1) remarks “the trend towards state expansion [in Russia] is unmistakable.” Despite the emphasis the Russian government put on its commitment to privatization and free market economy, state expansion in Russia was apparent during Putin administration. At the end of 2003, according to Thompson (2007, 1-2), “the state held about 11% of the voting shares in Russia’s 20 largest companies by market capitalisation. Three years later, the figure was 39% and rising. Since the composition of the top 20 changed very little, this increase reflected state acquisitions rather than changes in relative stock prices.”

This wave of renationalization was most evident in the energy sector. “In 2003, state-controlled companies accounted for about 16.0% of crude production. By early 2007, that figure had exceeded 40% and was still rising” (Thompson 2007, 3). Examples are ample. Rosneft “acquires a 51% stake [in Udmurtneft] from Sinopec after the latter buys 96.7% from TNK-BP for an estimated \$3.5 [billion]” (Thompson 2007, 2). Meanwhile, “Gazprom regains control of independent gas producer Northgas, taking over a 51% stake following litigation” (Thompson 2007, 2). It also “buys 69.66% stake of shares in Sibneft for \$13.1 [billion]” in October 2005 (Thompson 2007, 2). Gazprom itself was renationalized, too: in July 2005,

¹¹ For more detailed information on this period, see Jang (2011).

“State-owned Rosneftegaz purchases 10.7% of Gazprom to raise state’s direct stake in Gazprom above 50%” (Tompson 2007, 2).

The most controversial of these examples is the so-called “Yukos affair.” In the case of Yuganskneftegaz, a major subsidiary of Yukos, “Rosneft purchases 76.8% stake from the firm OOO “Baikalfinansgrupp [sic]”, the winner of a state-organised auction of Yuganskneftegaz shares to settle tax debts” (Tompson 2007, 2). These purported “tax debts” imposed by the Russian government amounted to \$3.4 billion, which necessarily resulted in the bankruptcy of Yukos. It is worth noting that Baikalfinansgrup was established two weeks ahead of the auction. This is the reason why there are strong suspicions that it was created especially for the purpose of attacking Yukos. Tompson (2007, 4) describes this affair as “the legal and political onslaught against the oil company Yukos.”

It should be noted that the Yukos affair is an extreme case, and that most renationalization attempts made by the Russian government toward energy companies “have mostly involved at least the appearance of orderly commercial transactions”. However, these cases also were to some extent compulsory, involving to a certain degree unlawful means that are not based on the market principle. On the specific way each attempt to renationalize an energy company took place and on the form each attempt ended up as, I will discuss in detail in the next chapter.

IV. Analysis of the Political Dynamics Behind the Successful and Failed Cases of Renationalization

1. Successful Cases

1) Gazprom

Gazprom originates from the Ministry of Gas Industry of the USSR. In the USSR, the central government controlled the exploration, development, and distribution of natural gas through the Ministry of Gas Industry. In 1989, the minister of Gas Industry, Victor Chernomyrdin (Виктор Черномырдин) changed the ministry into the State Gas Concern¹² Gazprom. Chernomyrdin acted as president and CEO of Gazprom. Gazprom was the first-ever state enterprise of the USSR, but it was still controlled by the government which had one-hundred percent shares in Gazprom (Goldman 2008, 59-60).

When the USSR collapsed, Gazprom was able to keep the natural gas resources in the Russian territory under its control and stayed as a gas monopoly. Yeltsin administration of the Russian Federation privatized Gazprom, which was a part of the government's economic reform. It was a voucher type privatization in

¹² “A concern is a type of business group of legally independent companies that are effectively unified under management. A concern is generally formed by a huge company for the purpose of controlling a number of subsidiaries across several industries.” Maeil Business Glossary. <http://dic.mk.co.kr/> (Search date: August 19, 2014).

which vouchers were distributed to the general public so that every citizen might acquire a share in state assets (Goldman 2008, 60).¹³ After privatization was done, the federal government ended up with 40.87 percent of shares (later on 38.37 percent) in Gazprom.¹⁴

When Chernomyrdin was appointed as deputy prime minister by Yeltsin, his deputy Rem Vyakhirev (Рем Вяхирев) became the chairman and CEO of Gazprom (Goldman 2008, 60). Chernomyrdin was soon promoted as the prime minister¹⁵. “With Chernomyrdin as prime minister and his old deputy as CEO and chairman of Gazprom” (Goldman 2008, 61), Gazprom was relatively free from close government regulation. Vyakhirev committed a number of wrongdoings while he ran Gazprom. He evaded tax and paid less dividends than he had to, wasted company funds for his personal needs, built lavishly luxurious main building, and frequently did asset-stripping (Goldman 2008, 140). This asset-stripping was closely related with ITERA, a company that was suspected to have trustees who are close friends of Gazprom executives.

Putin regime, after coming to power in 2000, increased the portion of state shares in Gazprom and began to tighten control over it. Putin fired Chernomyrdin, the chairman of the board of directors, and Vyakhirev, the CEO. As their replacements, Medvedev and Miller were chosen to take up each of these posts. They

¹³ For more discussion on the voucher type of privatization, see Leem (1997).

¹⁴ <http://www.gazprom.com/investors/stock/structure/> (Search date: August 19, 2014).

¹⁵ In 1998, when Chernomyrdin was fired by Yeltsin from the post of prime minister, he came back to Gazprom as the chairman of the board of directors.

both were Putin’s Saint-Petersburg “homeboys”¹⁶. Putin trusted them with the task of stopping asset-stripping and taking back already lost assets. In 2005 RosNefteGaz (PocHeфTeГaз), a state-owned company, bought 11 percent shares of Gazprom from Gazprom subsidiaries. This provided the state with a controlling share in Gazprom. Since then, Gazprom has played an active part in Putin’s “National Champions” projects as an agent of the federal government (Goldman 2008, 139).

Table 7. Analysis: Gazprom¹⁷

Motivating Factors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: “Great Power Assertiveness”	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 1 st largest company in Russia, a near monopoly in Russia’s natural gas sector	○
		The attitude of the company: bad – default on taxes and dividends, asset-	○

¹⁶ When Putin had come to power, he appointed his close colleagues from Saint-Petersburg to important posts. They are often referred to as “Putin’s friends.”

¹⁷ In the table, the shaded parts are external conditions that are relevant to all the state acquisitions that took place during the period analyzed in this study. Therefore, they cannot account for the difference in the result—success or failure—of each case, and thus we should pay more attention to the unshaded parts. I have organized the other tables the same way: external conditions are shaded and key explanatory variables are unshaded.

		stripping	
Enabling Factors	State-Business Relation	Rising oil prices	○
		Weak political institutions	○
		Low legitimacy of the company: tax evasion, asset-stripping	△
		Experience of being under state ownership: a former gas ministry, high portion of state shares	○
Constraining Factors	Interested Party	Oligarch	○
		Foreigner	×
		Regional government	×
		Individual owner	×
Renationalization Success / Failure		Success	

Table 7 is the result of applying the analytical framework to the case of Gazprom. Excluding those variables that are commonly found in all the cases during the period studied in this thesis—Putin’s first and second terms in presidential office, I will now examine what were Gazprom’s motivating, enabling, and constraining factors and how they interacted to lead to success in renationalization of the company.

(1) Motivating Factors

First of all, *the importance of the company* is obvious: Gazprom is *the* largest company in Russia, not to mention in the Russian energy sector. In fact, Gazprom is the largest gas company in the world. It nearly monopolizes Russia’s natural gas sector. The enormous economic importance of Gazprom provides the federal

government with enough motivation to renationalize it. Also, *the attitude of the company* creates additional motivation for renationalization. Gazprom's attitude was not exemplary: it often defaulted on taxes and dividends and practiced asset-stripping.

(2) Enabling Factors

Gazprom's low legitimacy caused by its habitual tax evasion and asset-stripping enabled the federal government to renationalize the company. I marked the level of this variable as medium (triangle) because in the case of Gazprom the method of privatization was voucher privatization, which is typically less rigged and less concentrated to specific group of people than loans-for-shares privatization. In addition, Gazprom had an *experience of being under state ownership*: it was formerly the gas ministry of the USSR. In particular, Gazprom was privatized only partially: the state remained the main shareholder of the company—with around 40 percent of shares—even after the privatization was done. With high portion of shares, it was easier for the federal government to renationalize the company.

(3) Constraining Factors

In the case of Gazprom, the main interested parties are Chernomyrdin and his old deputy Vyakhirev. They fall into the category of oligarchs. More specifically, they are oligarchs with a nomenklatura background: they were the minister and the deputy minister of gas industry of the USSR respectively. The oligarch is the weakest constraining factor for it lacks legitimacy the most. Note that it was structurally impossible for a foreigner to be an interested party in Gazprom because in the process

of privatization, Gazprom's bylaw forbid foreigners from purchasing more than nine percent of the shares (Arentsen and Kunneke 2003). With the low level of constraint, the federal government successfully renationalized Gazprom.

2) Yukos

Yukos is an oil company taken over from the state by the Bank Menatep (Банк МЕНАТЕП) of Khodorkovsky through loans for shares under the Yeltsin administration. Yukos originally was spun out of Rosneft in 1992. The name "Yukos" represented "the merger of the Production Association Yuganskneftegaz (Yu) with the refinery KyubyshevnefteOrgSintez (Kos)" (Goldman 2008, 106). The famous "Yukos affair" where Yukos came under assault from the state represents the beginning of Putin's attack against oligarchs. After coming to power, Putin gathered oligarchs and warned them to stay away from politics if they wanted their unlawful business activities for accumulation of wealth to be overlooked. Notwithstanding this warning, Khodorkovsky of Yukos tried to exert an influence on politic and challenge the Putin administration through his immense wealth. For instance, he reproached the government through his press media and funded opposition parties (Goldman 2008, 113-114). As a result, Khodorkovsky was suddenly arrested on a charge of embezzlement and tax evasion in October 2003. At the end of 2004, Yuganskneftegaz, the main subsidiary of Yukos, was sold to state company Gazprom and to Baikalfinansgrup, a subsidiary of Rosneft which is also a national company.¹⁸

¹⁸ "U Pokupatelya "[Yukosa]" Net Dazhe Ofisa (The Buyer of "[Yukos]" Doesn't Even Have

Yukos, already bankrupt in effect, went entirely bankrupt in August 2006. Sibneft took over the rest of its subsidiaries.

Table 8. Analysis: Yukos

Motivating Factors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: “Great Power Assertiveness”	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 5 th largest company in Russia	○
		The attitude of the company: very bad – challenge to government, political influence, draining national wealth	○
Enabling Factors	State-Business Relation	Rising oil prices	○
		Weak political institutions	○
		Low legitimacy of the company: unlawful privatization, past asset-stripping and arbitrariness	○
		Experience of being under state ownership: privatization	○
Constraining Factors	Interested Party	Oligarch	○
		Foreigner	×
		Regional government	×

an Office).” December 20, 2004. *Utro.ru*.

Individual owner		×
Renationalization	Success	
Success / Failure		

Table 8 is the result of analysis. The details are as follows.

(1) Motivating Factors

The economic importance of the company is clear in this case, too. Yukos was the 5th largest company in Russia when it became the target of renationalization. *The attitude of the company* can be labeled as “very bad.” Yukos and its owner Khodorkovsky did not heed to Putin’s warning that the oligarchs should stay out of politics. Khodorkovsky demanded building oil pipelines leading to Murmansk and China. He even signed a major oil-delivery contract with China. This was a challenge not only to Transneft, a state-owned oil-pipeline monopoly, but also to the state’s prerogative to make foreign policies (Goldman 2008, 111). Also, Khodorkovsky intended to sell off some of Yukos assets to foreign companies such as Chevron or Exxon-Mobil (Goldman 2008, 111-113). This was unacceptable for Putin who valued Russia’s mineral resources and considered them a strategic asset that needs to serve the interests of the state. It seems like Khodorkovsky did not take Putin’s warning toward oligarchs seriously: he attempted to make his own political power base by backing opposition parties and funding Duma members (Goldman 2008, 113). This was exactly what Putin had warned against in 2000: trying to exert political influence. Last but certainly not least, Khodorkovsky even criticized

Kremlin and Bogdanchikov, the CEO of state-owned Rosneft (Goldman 2008, 114). All this can be summarized as: “Khodorkovsky was acting like a king, not a subject” (Goldman 2008, 112). The great importance of Yukos and its terrible attitude combined to provide the government with an enormous motivation for renationalization.

(2) Enabling Factors

Yukos, like most of the success cases, had *low legitimacy*. It went through unlawful privatization. The method of privatization was LFS and the auction in December 1995 was, like almost all the LFS auctions were, rigged. Menatep, Khodorkovsky’s bank, conducted the auction, and the winner was a straw of Menatep. Menatep ruled out all the other bidders, and Khodorkovsky was able to win 88 percent of Yukos shares paying only \$350 million, the minimum requirement (Goldman 2008, 107). Khodorkovsky and his associates committed other wrongdoings as well when operating Yukos. They habitually conducted asset-stripping and transfer pricing to drive out minority shareholders, and they even committed violence including murder (Goldman 2008, 107-108). Although Khodorkovsky “suddenly decided in 1999 to embrace reform and transparency” (Goldman 2008, 110), all the past deeds led to lower legitimacy of Yukos, which in turn placed the government in a relatively advantageous position. Meanwhile, since it is a privatized company, Yukos automatically has an *experience of being under state ownership*, which makes it easier to renationalize the company.

(3) Constraining Factors

In the case of Yukos, the main interested party, Khodorkovsky, is a typical oligarch. He is an upstart oligarch who accumulated wealth starting from small businesses during the USSR years. Having gained Yukos through a rigged auction of LFS, the oligarch lacked legitimacy and thus was not able to impose strong constraint on the government's attempt to renationalize Yukos. This led to success of the attempt and Yukos was thoroughly plundered by the state. There was no other interested party such as a foreigner that could hinder the state from renationalizing Yukos. In fact, Yukos was about to make foreign firms such as Chevron and Exxon-Mobil to be involved in the management, but this attempt was not realized. Eventually, this attempt provided only a motivating factor (attitude) and failed to create a powerful constraining factor (foreigner). As Lee (2010, 277) points out, "Yukos was dissolved because it had attempted to draw foreign capital, and at the same time, it failed to do so."

3) Sibneft

Sibneft is an oil company established in 1995 in the process of transferring state shares in the branch companies of Rosneft, a state-owned company, to the private sector. It was privatized through LFS into the hands of Berezovsky and Smolensky. The privatization process was dubious. It is claimed that Berezovsky was behind the "Presidential Edict which spun off Sibneft from the Ministry of Energy and Rosneft". The reward offered by Berezovsky was supporting Yeltsin in the 1996 campaign for reelection through his TV network ORT (Goldman 2008, 65).

Consequently, the auction of Sibneft went in an opaque way. The conductor and the winner of the auction were both fronts for Berezovsky.

ORT, Berezovsky's TV network, openly criticized the Kremlin, and this consigned him to threat of jailing. After being threatened, Berezovsky sold off his shares of Sibneft to his junior partner Roman Abramovich. Abramovich, like Khodorkovsky of Yukos, once considered selling half of his shares to foreign companies. However, after a number of visits by tax authorities and their claims of \$1.4 billion in back taxes, he readily agreed to sell his 72 percent shares in Sibneft to Gazprom. As a result, Sibneft was renationalized and transformed into "Gazpromneft."¹⁹ Now, "the state once again gained control of 30 percent of Russia's total oil output" (Goldman 2008, 123).

Table 9. Analysis: Sibneft

	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: "Great Power Assertiveness"	○
		Inclination of the leader: authoritarianism	○
Motivating Factors	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 9 th	○

¹⁹ "Vse AZS pod Brendom "Sibneft" Pereimenuyut v "Gazpromneft" (All gas stations under the Brand Name "Sibneft" Are renamed "GazpromNef")." September 7, 2009. *Lenta.ru*.

		largest company in Russia	
		The attitude of the company: bad – criticism toward the government, draining national wealth	○
Enabling Factors	State-Business Relation	Rising oil prices	○
		Weak political institutions	○
		Low legitimacy of the company: unlawful privatization	○
		Experience of being under state ownership: privatization	○
Constraining Factors	Interested Party	Oligarch	○
		Foreigner	×
		Regional government	×
		Individual owner	×
Renationalization Success / Failure		Success	

Table 9 provides an analysis of the case of Sibneft.

(1) Motivating Factors

The importance of the company is high: Sibneft is the 9th largest company in Russia. *The attitude of the company* is bad. Berezovsky, the owner of Sibneft, allowed his TV network ORT to criticize the Putin administration. Also, when Abramovich became the owner of Sibneft, he considered selling off his stock to foreign companies. This was considered as an attempt to drain national wealth. Therefore, there was enough motivation for the government to undertake renationalization of Sibneft.

(2) Enabling Factors

The legitimacy of Sibneft was low due to the unlawful privatization it has gone through. A company called FNK (Finansovaya Neftyanaya Kompaniya—Financial Oil Company) came out of nowhere and acquired 51 percent of Sibneft shares barely for \$100 million. FNK was a front for Alkion Securities owned by SBS/AGRO, which was “run by Smolensky in partnership with Berezovsky” (Goldman 2008, 65). Moreover, the conductor of the auction was NFK (Neftyanaya Finansovaya Kompaniya, Oil Financial Company), which was controlled by Berezovsky (Goldman 2008, 65). Sibneft also has an *experience of being under state ownership* since it had spun off from the state-owned Rosneft.

(3) Constraining Factors

The primary interested parties in Sibneft are Berezovsky and Abramovich, both of whom are oligarchs. Both were typical upstart oligarchs who started accumulating fortune with rather small businesses during the USSR years and came to own a large oil company through a LFS privatization. Thus, both of them lacked legitimacy in relation to the state and made a weak constraining factor. This in turn led to the state’s success in renationalizing Sibneft.

4) ITERA

ITERA is a gas company which was established in 1992 by Igor Makarov

(Игорь Макаров), a Russian businessman. It was the first private gas-producing company in Russia and the second largest gas producer in the country. At the end of 1990s, ITERA cooperated with Gazprom in conducting asset stripping. Natural gas of Gazprom was sold at a very low price to ITERA. It is supposed that the profit ITERA acquired through selling this gas somehow benefited the management of Gazprom. In fact, the rumor spread that most of ITERA's trustees were closely related to the senior executives of Gazprom.

When Putin came to power, he fired the CEO of Gazprom, Vyakhirev, and appointed Miller to the post. Miller forced ITERA to become almost bankrupt by denying access to the gas pipelines, most of which are monopolized by Gazprom.²⁰ By doing so, Gazprom was able to take its assets back that was embezzled by ITERA through asset stripping. In 2006, GazpromBank (ГазпромБанк), a branch company of Gazprom, purchased 51 percent shares from Sibneftegaz, a core branch company of ITERA. As a result, ITERA too has been renationalized (Goldman 2008, 141-142).

Table 10. Analysis: ITERA

Motivating Factors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: "Great Power Assertiveness"	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○

²⁰ "Reagan Administration Warned Russian Pipeline Through Ukraine Would Weaken West." March 5, 2014. *The Washington Times*.

		Decreasing influence in the CIS	○
		Weak regulatory and extractive capacities of the state	○
	Domestic Conditions	The importance of the company: 70 th largest company in Russia, 2 nd largest gas company in Russia	○
		The attitude of the company: bad – asset-stripping in collaboration with Gazprom	○
Enabling Factors	State-Business Relation	Rising oil prices	○
		Weak political institutions	○
		Low legitimacy of the company: asset-stripping in collaboration with Gazprom	○
		Experience of being under state ownership: new company	×
Constraining Factors	Interested Party	Oligarch	×
		Foreigner	×
		Regional government	×
		Individual owner	○
Renationalization Success / Failure		Success	

Table 10 summarizes the analysis on the renationalization of ITERA.

(1) Motivating Factors

The level of *importance of the company* ITERA is considerable: it is the 70th largest company in Russia. This is lower than the other cases examined above, but it has to be noted that ITERA was the second largest gas-producing company, only next

to Gazprom. Russia has “27—28 percent of the world’s natural gas reserves” (Goldman 2008, 139), which makes it an overwhelming power in natural gas market. Putin understood this and considered natural gas as a political and economic weapon that need to serve the interests of the state (Goldman 2008, 139). Therefore, it can be inferred that ITERA, being in the natural gas industry, had more significance than its ranking simply implied. In addition, *the attitude of the company* was bad: ITERA played a major role in the asset-stripping of Gazprom, the near monopoly of Russia’s natural gas and largest company in Russia. Therefore, there were sufficient motives for the Russian government to renationalize ITERA.

(2) Enabling Factors

ITERA had *low legitimacy* for its asset-stripping in collaboration with Gazprom. Starting from the mid-1990s, ITERA operated as a broker between a number of countries dealing with natural gas. Doing this job, ITERA earned considerable amount of profit. The issue, however, was that its trustees were believed to be closely associated with the top executives of Gazprom and the profit benefited these people (Goldman 2008, 141-142). This lack of legitimacy enabled the government to renationalize ITERA with more ease. On the other hand, ITERA has *no experience of being under state ownership*: it is a newly founded company. Overall, it can be concluded that in the case of ITERA, the enabling factors did exist, but they were not as strong as in the cases of Gazprom, Yukos, and Sibneft.

(3) Constraining Factors

The major interested party in ITERA's case is an individual owner, Igor Makarov. This thesis hypothesizes that if the interested party is not an oligarch, which has the least power as a constraining factor, then it is harder for the federal government to renationalize the given firm. Nevertheless, ITERA did get renationalized. This phenomenon can be explained by the fact that ITERA lost its legitimacy by actively taking part in exploitation of assets. Indeed, the very mechanism through which an individual owner obtains its effect as a constraining factor is its higher level of legitimacy compared to an oligarch, who by definition underwent most-of-times-unlawful privatization process. However, ITERA, despite its advantage of not having gone through privatization, harmed its legitimacy by its extreme wrongdoings and eventually got renationalized. In addition, it can be suggested that the interested party "individual owner", although stronger than the oligarch, has less power as a constraining factor than the other interested parties such as foreigner and regional government. A foreign company as an interested party is typically a corporate giant and it can turn to courts of the West when confronted by the Russian state's renationalization attempt. A regional government is vested with institutional power by the law. Compared to them, the only advantage individual owner has over an oligarch is that it has not gone through unlawful privatization process.

2. Failed Cases

1) TNK-BP

TNK (Tyumen Oil Company) has originally spun off from Rosneft. It was privatized through loans for shares (LFS) method. In July 1997, Fridman, in partnership with Blavatnik's Access Industries, bid 40 percent of Tyumen Oil Company's stock using his Alfa Bank. TNK was fairly aggressive when it came to protecting its benefit. TNK came into conflict with NOREX for matters regarding Yugraneft production facilities and collided with Sidanko and Amoco for Chernogorneft oil field. Through a dubious process, TNK succeeded in becoming an effective owner of Chernogorneft. As a result, British Petroleum (BP) was forced to write off \$200 million it invested in Sidanko. To have revenge on TNK, BP attacked TNK, too (Goldman 2008, 69-70).

Nonetheless, the two companies made up with each other and agreed to form a 50:50 partnership with BP in management. In 2003, BP bought half of Alfa and Renova's shares in TNK, creating a new international oil company, TNK-BP (Goldman 2008, 70). After this, the corporate governance of the company transformed to the Anglo-Saxon model (Lee 2010, 276).

In 2005, TNK-BP was attacked by the tax administration's back-tax claim that amounted to one-billion dollars.²¹ It was substantially similar means of

²¹ "TNK-BP gets \$936m Russia tax bill." 11 April, 2005. *BBC News*.

nationalization to the one used in the case of Yukos. However, BP's CEO met Putin

Table 11. Analysis: TNK-BP

Motivating Factors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: “Great Power Assertiveness”	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 6 th largest company in Russia	○
		The attitude of the company: bad – draining national wealth	○
Enabling Factors	State-Business Relation	Rising oil prices	○
		Weak political institutions	○
		Low legitimacy of the company: unlawful privatization	○
		Experience of being under state ownership: privatization	○
Constraining Factors	Interested Party	Oligarch	○
		Foreigner	○
		Regional government	×
		Individual owner	×
Renationalization Success / Failure		Failure	

and other political leaders of Russia. In consequence, the tax bill was reduced to around one-quarter of the original amount (Lee 2010, 276-277).

Analysis on TNK-BP's case is demonstrated in Table 11.

(1) Motivating Factors

The importance of the company in the case of TNK-BP is at a high: TNK-BP is the sixth largest company in Russia. *The attitude of the company* can be evaluated as bad since TNK, by selling half of its stock to a foreign company, drained national wealth. In particular, BP not only bought half of TNK shares, but also gained a managing position. This is unacceptable for Putin who has believed energy sector should be controlled by and serve for the interest of the state. Altogether, motivating factors in TNK-BP's case were powerful.

(2) Enabling Factors

TNK-BP had *low legitimacy* because it passed through unlawful privatization process. Like most cases, Fridman acquired TNK through the controversial LFS method. He purchased 40 percent of TNK's shares for only \$810 million. TNK-BP also had an *experience of being under state ownership*: privatization automatically implies it.

(3) Constraining Factors

It is clear that the only significant difference between the success case Yukos and failure case TNK-BP is the existence of another interested party—a foreigner.

The foreigner's involvement effectively protected TNK-BP from the Russian government's nationalization attempt. This case is especially meaningful since TNK-BP has strong motivating factors (e.g. large size) and enabling factors (e.g. privatization experience). This means that constraining factors can lead a renationalization attempt to a failure even when motivating and enabling factors stand strong.

2) Bashneft

Bashneft was an oil company under the control of Bashkortostan (Башкортостан). In 2003, ВТК consisting of Bashneft and other oil companies in Bashkortostan was privatized to Bashkir Capital (Башкир капитал) owned by Ural Rakhimov (Урал Рахимов). He is the son of Murtaza Rakhimov (Муртаза Рахимов), the governor of Bashkortostan. Such a blatant privatization seems to be a response to Putin's policy of centralization through resetting the relation between central government and regional ones. As Putin's interference in regional governments grew severe, it became less clear what result of the 2003 governor election would be like. Thus the hasty privatization: Murtaza Rakhimov was making sure that even if he was not going to be reelected, the Bashkir assets would still be protected (Sharafutdinova 2011, 16-17).

In 2005, Russia's Account Chamber declared that the process of privatization of Bashneft and other oil companies was illegal. According to the Account Chamber,

Bashkir Capital did not pay 13.5 billion rubles of taxes it owed to the state. However, this accusation was an unreasonable one because it had been agreed that Bashkir Capital pay the taxes not immediately but within ten years (Sharafutdinova 2011, 21-24).

Murtaza Rakhimov, under the pressure, sued his son to reverse the privatization and take back the privatized companies into BTK which was controlled by the Bashkortostan government. Court of Arbitration stood on the side of the regional government, but the government withdrew the suit. As a result, Bashkir Capital got back its shares and in return agreed to pay an additional 13 billion rubles to Bashkortostan government. To afford this sum, Ural Rakhimov had to sell off a part of his shares to Sistema. (Sharafutdinova 2011, 21-24).²²

In 2006, Ural Rakhimov divided his shares in Bashkir Capital including Bashneft into parts and transferred each of them to four different investment funds. The tax authorities filed four suits against Rakhimov for not paying taxes for the profit made in the process of each transfer. Moscow Court of Arbitration at first supported the tax authorities, but the Arbitration Appeal Court cancelled one of the four rulings. The rumor ran that Gazprom interfered in order to acquire Bashneft, but it was Sistema that eventually gained the controlling share of Bashneft.²³

²² “Syn Prezidenta Rakhimov Prodayot tret' biznesa Yevtushenkovu (Son of President Rakhimov Sells third of business to Yevtushenkov).” August 12, 2005. *Vedomosti (Gazette)*.

²³ “Bashkirsкая нефть вошла в систему (Bashkir oil entered Sistema).” April 6, 2009. *Ekspert Ural (Expert Ural)*.

Table 12. Analysis: Bashneft

Motivating Factors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: “Great Power Assertiveness”	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 30 th largest company in Russia	○
		The attitude of the company: good – no political interference	×
	Enabling Factors	State-Business Relation	Rising oil prices
Weak political institutions			○
Low legitimacy of the enterprise: quiet privatization			○
Experience of being under state ownership: regional government			×
Constraining Factors			Interested Party
	Foreigner	×	
	Regional government	○	
	Individual owner	×	
Renationalization Success / Failure		Failure	

The result of analysis on Bashneft is shown in Table 12.

(1) Motivating Factors

The importance of the company was high: Bashneft was the 30th largest company in Russia. This creates a strong motivation for renationalization. Meanwhile, *the attitude of the company* was okay since Bashneft did not show any particular intention to politically interfere with or criticize the federal government. This means the motivating factors did operate but were not the strongest, compared to successful cases in which the companies tried to exert political influence.

(2) Enabling Factors

Although it did not go through a LFS auction, Bashneft's *legitimacy* was still low since it was quietly privatized into the hands of a family member of the regional elite. This is an enabling factor that locates the federal government in a superior position in relation to the company. However, Bashneft does not have an *experience of being under state ownership*: it was owned by a regional government, which is distinct from the federal government.

(3) Constraining Factors

The interested parties in Bashneft are a regional government and an oligarch. I consider Ural Rakhimov as an oligarch for he acquired Bashneft as the result of privatization. While in successful cases there was only one interested party—usually an oligarch, in the case of Bashneft there were two, including a regional government.

The federal treaty signed by Yeltsin in 1992 guarantees that each republic has a right to own the natural resources located in its territory (Federativnyj Dogovor 1992). In the case of Bashkortostan, the treaty was particularly meaningful since there are abundant oil reserves in this republic. Also, the Constitution of the Russian Federation adopted in 1993 recognizes each republic as a “state,” providing a legal basis granting republics even more powerful autonomy (Konstitutsiya Rossiyskoy Federatsii 1993). In addition, each republic received a special concession for natural resources in its territory from the federal government through a bilateral treaty (Sharafutdinova 2011). Due to these factors, Bashkortostan republic obtained a strong influence over the petroleum produced in its territory. Thanks to this fact, the Bashkortostan government was able to carry out privatization in favor the political leader of the republic without interference of the federal government. Because of the regional government operating as a powerful constraining factor, the federal government also failed to take over Bashneft despite a couple of attempts to do so.²⁴

²⁴ Although the scope of period studied in the thesis is the first and second term of Putin administration, recently there has been an important change in the ownership structure of Bashneft: the Russian government took over Bashneft from Yevtushenko of Sistema. The process had a close analogy with the Yukos affair: Yevtushenko was placed under house arrest and was accused of money laundering in the process of acquiring Bashneft. In December 2014, the assets of Bashneft were renationalized. This was possible because now there is only one major interested party in Bashneft: an individual owner, bereft of a regional government. It has been supposed in the analysis of ITERA that the individual owner is the second weakest constraining factor. This is the reason why the federal government succeeded in renationalizing Bashneft only in 2014.

3) Novatek

The third case is Novatek (НОВАТЭК). As we can see from Table 1, unlike the successful cases of renationalization, the government share in Novatek has achieved not a majority but a blocking minority. I consider this as incompleteness, and thus failure, of renationalization; therefore, the case of Novatek will be analyzed as a failed case with a focus on what differences it has from successful cases.

Novatek, which was established under the name of Novafininvest (НОВАФИНИНВЕСТ) in 1994, became the biggest private-owned gas-producing company in Russia in 2003. In 2004, a French oil and natural gas giant Total signed an agreement to purchase 25 percent plus one share in Novatek's stock, but this agreement was never accomplished because of political resistance that considered this as selling away national wealth to foreigners. Instead, 5.61 percent of shares were transferred from Yamal Regional Development Fund (Региональный фонд развития Ямала), a non-profit organization, to Vnesheconombank (Внешэкономбанк), a state-owned bank. In July 2005, a cooperation agreement was signed between Novatek and Gazprom. One year later, this agreement was expanded, and as a result, Gazprom was able to obtain 19.9 percent of shares in Novatek's stock (Heinrich 2008, 1554).²⁵

Table 13 is the result of analysis on Novatek's case. The details of the result are described below the table.

²⁵ "How Russia is Nationalized: The Oil Sector." September 19, 2007. *Kommersant*.

Table 13. Analysis: Novatek

Motivating Factors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: “Great Power Assertiveness”	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 60 th largest company in Russia, 2 nd largest gas company	○
		The attitude of the company: good –no political interference	×
	Enabling Factors	State-Business Relation	Rising oil prices
Weak political institutions			○
Low legitimacy of the company: no privatization, fewer irregularities			×
Experience of being under state ownership: new company			×
Constraining Factors	Interested Party	Oligarch	×
		Foreigner	×
		Regional government	×
		Individual owner	○
Renationalization Success / Failure		Failure	

(1) Motivating Factors

The importance of the company is at a fair level: Novatek is the 60th largest company in Russia. It is the second largest natural gas producer in the country, only after Gazprom. The importance of gas sector is discussed in the analysis of ITERA.²⁶ This makes a strong motivating factor for renationalization. On the contrary, *the attitude of the company* is fine compared to the successful cases such as Yukos or Sibneft: Novatek did not make particular political interferences.

(2) Enabling Factors

The legitimacy of the company is not particularly low. First of all, Novatek has not gone through privatization process, which deprives a given firm of its legitimacy to not inconsiderable extent. Novatek also committed fewer illegal actions in comparison to Gazprom or Yukos who blatantly practiced asset-stripping. In addition, Novatek does not have an *experience of being under state ownership*: it is a newly established company. All of these mean that enabling factors were fairly weak in the case of Novatek.

(3) Constraining Factors

The main interested party in Novatek is an individual owner Leonid Mikhelson. Not being an oligarch and thus not having acquired Novatek in the result of unlawful

²⁶ See the first section (1. Successful Cases) of this chapter.

privatization, he has retained legitimacy.

As we have seen in the Section 2, the series of attacks Putin made against oligarchs were very authoritarian. Besides, the evaluation of the Russian democracy in general deteriorated during Putin's rule.²⁷ However, even Putin, whose ruling style appeared despotic, had to use renationalization methods that do not create extreme level of conflict with the law in order to preserve legitimacy. For example, Gazprom, Yukos or ITERA did conduct asset-stripping and tax evasion, and thus it was easier to use accusation of such wrongdoings against them as a renationalization means. In contrast, Novatek was relatively free from such accusations; therefore, the central government or state-owned companies as the government's agents had no choice but to obtain shares in Novatek through more lawful means in accordance with the market principle. Consequently, government shares in Novatek stock, unlike the success cases, reached only a blocking minority.

4) Ufimsky NPZ and Ufaneftekhim

Ufimsky NPZ was created in 1937 as an oil refinery company when Tuimazinskoye deposit was discovered.²⁸ Ufaneftekhim was founded in 1957 as the third plant of Ufa-based refinery companies.²⁹ Ufimsky NPZ and Ufaneftekhim are

²⁷ Freedom House. https://freedomhouse.org/report/freedom-world/1999/russia#.VM_R6WisWk8/ (Search date: January 9, 2015).

²⁸ <http://www.bashneft.com/company/history/> (Search date: January 9, 2015).

²⁹ <http://www.bashneft.com/company/history/> (Search date: January 9, 2015).

both subsidiaries of Bashneft; therefore, they went through a similar political dynamics as Bashneft did, and the factors that acted on the renationalization process are almost the same. The only difference of these firms from Bashneft is size and economic importance. Table 14 and Table 15 are the results of analysis on these two cases. Since the enabling and constraining factors are the same and one motivating factor—the importance of the company—is weaker, the failure in renationalization of these companies is completely convincible: all conditions being equal, less motivation leads to bigger probability of failure.

Table 14. Analysis: Ufimsky NPZ

Motivating Factors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: “Great Power Assertiveness”	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 119 th largest company in Russia	×
		The attitude of the company: good –no political interference	×
Enabling Factors	State-Business Relation	Rising oil prices	○
		Weak political institutions	○
		Low legitimacy of the company: quiet privatization	○

		Experience of being under state ownership: regional government	×
Constraining Factors	Interested Party	Oligarch	○
		Foreigner	×
		Regional government	○
		Individual owner	×
Renationalization Success / Failure	Failure		

Table 15. Analysis: Ufaneftekhim

Motivating actors	Leadership	Economic policy line: economic nationalism	○
		Foreign policy line: “Great Power Assertiveness”	○
		Inclination of the leader: authoritarianism	○
	International Conditions	Rising oil prices	○
		Non-recognition by the West	○
		Decreasing influence in the CIS	○
	Domestic Conditions	Weak regulatory and extractive capacities of the state	○
		The importance of the company: 128 th largest company in Russia	×
		The attitude of the company: good –no political interference	×
Enabling Factors	State-Business Relation	Rising oil prices	○
		Weak political institutions	○
		Low legitimacy of the company: quiet privatization	○

		Experience of being under state ownership: regional government	×
Constraining Factors	Interested Party	Oligarch	○
		Foreigner	×
		Regional government	○
		Individual owner	×
Renationalization Success / Failure	Failure		

3. Summary

The results of analysis are summarized in Table 16. In all the failed cases, constraining factors were strong. On the other hand, in the successful cases there were no constraining factors, or (as in the case of ITERA) only the ones that are weak. The results support the two hypotheses proposed in Chapter 2. After analysis of the cases, a new supposition can be made that an individual owner as a constraining factor is weaker than the other interested parties—foreigner and regional government, though stronger than an oligarch.

Table 16. Analysis Results

Company	Motivating Factors	Enabling Factors	Constraining Factors	Renationalization Success / Failure
Gazprom	○	○	×	S
Yukos	○	○	×	S
TNK-BP	○	○	○	F
Sibneft	○	○	×	S
Bashneft	△	△	○	F
Novatek	○	○	○	F
ITERA	○	○	△	S
Ufiimsky NPZ	△	△	○	F
Ufaneftekhim	△	△	○	F

V. Conclusion

1. Summary of the Study

In this thesis, I have examined the political dynamics behind the success and failure of renationalization of the Russian energy sector during Putin period. More concretely, by categorizing the variables affecting renationalization into “motivating factors,” “enabling factors,” and “constraining factors,” I have analyzed which factors have what influences on the process of renationalization. In particular, I have presented “number and type of interested parties” as the core variable explaining failure of renationalization attempts.

First, motivating factors which provided the Putin administration motivations to renationalize already privatized energy companies are “leadership and ideology of Putin’s government,” “international circumstances” including oil price rise and Russia’s exacerbated position in the World, and “domestic conditions” such as weak institution and companies’ importance and attitude. Second, enabling factors, which makes it possible for the government to actually carry out renationalization, correspond to “predominance of the state over the business” caused by oil price rise, weak democracy, and companies’ low legitimacy and experience of being under state ownership.

Finally, constraining factors, which led to failure in renationalization, are the

number and type of interested parties. More specifically, I have formed hypotheses that as the more powerful type of interested party is involved in the target firm, and as the more different types of interested parties are involved in the target firm, it is easier for the federal government's attempt of renationalization to end up as failure.

The results of analysis shows us that even Putin regime that seemed to be ruling Russia in an arbitrary and authoritarian manner could not realize renationalization intention when, besides an oligarch, a more powerful interested party—such as foreigners or and regional governments—was involved in the nationalization process. Also, a company owned by an individual owner rather than an oligarch, never having been under state ownership, provides the federal government little legitimacy of nationalization; government share in the company's stock is also not much in the first place. In this case, Putin government, in order to not lose legitimacy in the renationalization process, had to refrain from outright attack. On contrary, most of oligarchs became owners of companies through unlawful privatization process. Also, like the history of “privatization” implies, state shares remain relatively high in those companies. In addition, it is possible to apply logic of getting back the originally state-owned assets. Therefore, when only an oligarch is involved as an interested party, renationalization attempts were all successful.

In the case of Gazprom, renationalization was a process of tightening control, since proportion of state shares in Gazprom stock was considerably high in the first place. Khodorkovsky, owner of Yukos, a typical oligarch, had a bad attitude, which meant that he wanted to exert political influence. Also, Yukos was of high economic

importance. Therefore, there were strong motivations for renationalization and in fact renationalization of Yukos was done with the most extreme measures and to the complete level of achievement. Sibneft was a similar case: it had both strong motivating factors and enabling factors and lacked an interested party in a favorable position. Lastly, ITERA did have an interested party that is not an oligarch—an individual owner, but it lacked the legitimacy such an interested party confers because of its active and large-scale asset stripping in collaboration with Gazprom.

On the other hand, in the cases of TNK-BP (foreigner) and Bashneft (regional government), in which there were either more than one type of interested party or other type of interested party than an oligarch, renationalization ended up as a failure. Novatek, whose interested party was not an ordinary oligarch but an individual owner, was still not nationalized because the federal government had to attempt nationalization through market logic rather than peremptory method due to the relatively high legitimacy of the firm. As a result, government shares in Novatek stock reached only 25 percent. The cases of Ufimsky NPZ and Ufaneftekhim went through a similar process as Bashneft did, since they both had the same history and were in the same environment as Bashneft.

2. Limitations and Implications

The fundamental limitation of this study is that it is difficult to draw generalized conclusions due to the small number of cases. Although the study

analyzes all the cases of renationalization attempts toward energy firms during Putin administration, it did not pass statistical verification due to lack of cases, and thus I cannot jump to generalization of the conclusion drawn in this study. However, considering that the government's attempts to renationalize most of times ended up as failures when an interested party other than an oligarch exists, it can be said that the analysis results support the above presented hypothesis. If one proceeds research including cases of not only Russia, but also other countries where renationalization of energy sector happened (such as Venezuela), it will be possible to overcome the limitations of this study.

The first implication of this study is that it breaks the illusion about Putin in narrow meaning and authoritarian regimes in general. On the powerfulness and arbitrary rule of Putin, there are a number of discussions not only in academic world, but also in journalism. In addition, it is easy to see that the discretion of the government in an authoritarian state is wider than in a democratic state where political leaders are subject to supervision and evaluation by citizens and checks and balances by the legislature and judiciary. However, the result of the analysis in this study tells us that even if a political leader prefers authoritarian governing style, he or she can be subject to considerable constraints in performing a desired policy. In particular, it is interesting that such a constraint comes from the relative "legitimacy" in relation to the business.

The second implication of this study is that it systematizes the literature on renationalization of Russia's energy sector and contributes to a more accurate understanding of the reality. The study, by dividing the variables proposed by the

existing literature into “motivating factors” and “enabling factors”, helps the readers to understand more clearly what factors in what interaction acted on the renationalization of the energy sector.

Above all, the core implication of this study is that it improves the understanding of the political dynamics behind renationalization of the energy sector by paying attention to the difference in the degree of the achievement of renationalization occurring in one country. Most of the existing studies consider nationalization of the energy sector as a dummy variable with variance of only “occurring” and “not occurring.” This perspective overlooks the reality that inside a given country the level of achievement of nationalization varies for each firm. By contrast, analysis through the framework of this study helps to capture more clearly the complex political dynamics where formal and informal means are widely used and various interests collide in the process.

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국문초록

본 논문에서는 2000년대에 이루어진 러시아 에너지 부문의 재국유화 과정의 성패를 가름한 정치적 동학을 규명하기 위해 국유화의 대상이 되었던 각 기업의 사례들을 비교·분석한다. 소련의 해체 이후 러시아 정부는 시장경제로 이행하기 위해 에너지 부문을 비롯한 대부분의 경제 부문들을 사유화하였다. 그러나 푸틴 정권 1기 말에서 2기에 걸쳐 러시아 정부는 전략적 부문들에 대한 재국유화 작업에 착수하였다. 이때 많은 에너지 기업들이 국유화되었으나, 정부의 시도에도 불구하고 국유화되지 않은 에너지 기업들이 존재하였다. 그렇다면 국유화의 성공과 실패 여부를 결정짓는 요인은 무엇이었는가? 본 논문에서는 푸틴 집권 당시 중앙정부가 기업과의 관계에서 현저한 우위를 차지하였음에도 불구하고 국유화에 실패한 사례가 있다는 점에 주목하면서 러시아 에너지 부문의 재국유화 과정을 분석하고자 한다.

에너지 부문의 국유화에 대한 기존 연구는 국제적 조건이나 정치·사회·경제적 상황, 리더십, 구조, 국가-기업 관계 등과 같은 단일 변수만을 제시함으로써 재국유화의 복잡한 정치적 동학을 제대로 포착하지 못하였다. 또한 기존 연구는 국가 간 비교에 중점을 두었기 때문에 국유화 과정에서 드러난 구체적 양상과 달성 수준의 차이를 무시하고 일국의 국유화를 완전한 성공 혹은 실패로 규정하는 이분법적 판단에 머물렀다. 따라서 국유화의 실질적 기본 단위인 각 기업 수준에서의 국유화의 성공 및 실패에 대한 분석을 시행하지 못하였다.

이에 본 연구는 에너지 부문의 재국유화에 관련된 요인들을 ‘동기부여 요인’, ‘능력제공 요인’, ‘계약 요인’으로 나누어 각 기업에 대한 국유화의

정치적 동학을 파악하기 위한 분석틀로 설정한다. 특히 ‘제약 요인’을 중앙정부의 국유화 시도에 저항하거나 더 나아가 저지할 수 있는 ‘이해당사자’로 규정하고 이를 ‘올리가르히’, ‘외국인’, ‘지방정부’, ‘개인 소유주’로 유형화한다. 본 논문은 이해당사자의 유형과 결합상태를 통해 국유화의 성공여부를 설명한다. 첫 번째 연구가설은 이해당사자가 정부에 대해 더 많은 비교우위를 점하고 있을수록 중앙정부의 재국유화 성공 가능성이 낮아진다는 것이다. 두 번째 연구가설은 여러 유형의 이해당사자들이 재국유화 과정에 연관되어 있을수록 중앙정부의 재국유화 성공 가능성이 낮아진다는 것이다.

분석 결과, 권위주의적인 통치 방식을 보였던 푸틴 정권조차도 TNK-BP의 경우처럼 강대국 출신의 외국인이 제1소유주로 있는 사례나, 바시네프티, 우핌스키 NPZ, 우파네프테힘의 경우와 같이 제도적으로 보장받는 권한을 지닌 지방정부가 이해당사자로 존재하는 사례에서는 재국유화에 실패했음이 밝혀졌다. 반면에 올리가르히는 가스프롬, 유코스, 시브네프티의 사례를 분석한 결과 국유화에 대한 저지 능력이 가장 낮은 이해당사자로 드러났다. 그 원인은 대부분의 올리가르히들이 부정한 사유화 과정을 통해 기업의 소유주가 되었으므로 중앙정부가 재국유화의 정당성을 확보함에 있어서 상대적으로 어려움이 적었기 때문이다. 또한 올리가르히 소유의 기업들은 사유화 이전에 국가 소유였기 때문에 해당 기업에 대한 국가의 지분이 남아있는 경우가 많아 재국유화를 실행하는 것이 보다 용이하였다. 한편 개인 소유주는 중앙정부가 국유화를 시도하였을 때 외국인이나 지방정부보다는 낮은 저지 능력을 보였으나 올리가르히에 비해서는 효과적으로 대처하였다. 개인 소유주의 기업인 노바테크는 사회주의 정권의 국유 기업이었던 적이 없었으므로 해당 기업에 대한

국가의 지분이 전무하여 국유화가 현실적으로 어려웠다. 또한 노바테크는 시장경제로의 이행 이후에 세워진 신생 기업으로서 부정한 사유화 과정을 겪지 않았기 때문에 올리가르히의 경우와는 달리 정부가 국유화의 정당성을 확보하기 어려웠다. 이에 비해 이테라는 신생 기업이었음에도 불구하고 러시아의 최대 기업인 가스프롬의 자산을 수탈하는 활동에 적극적으로 참여하였기 때문에 푸틴 정권에 국유화의 정당성을 제공하였고 그 결과 국유화를 저지하는 데에 실패하였다.

본 연구가 지니는 함의는 러시아 에너지 부문의 재국유화에 대한 기존 연구를 ‘동기부여 요인’, ‘능력제공 요인’, ‘제약 요인’으로 체계화하여 재국유화의 과정을 보다 정확하게 파악하는 데에 기여하였다는 점이다. 또한 본 연구는 러시아 에너지 부문의 국유화를 완전한 성공으로 규정짓고 이를 푸틴의 통치능력으로만 설명하는 기존 연구에서 한 걸음 나아가, 국가-기업관계에 있어 우위를 점하고 있는 것으로 인식되는 푸틴 정권의 재국유화 실패 사례를 재조명하고 그 원인을 분석하였다. 즉 본 논문은 일국 내에서 나타나는 재국유화 달성 수준의 차이에 주목하고 이에 영향을 미치는 요인들을 세분화하여 분석함으로써 에너지 부문 재국유화의 정치적 동학에 대한 이해를 심화하였다.

주요어: 러시아 에너지 부문, 에너지 기업, 재국유화, 기업 소유구조, 푸틴, 이해당사자

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