

Where Has All the Oil Gone?

Contradictions among Russia's Socio-economic Development, Political Legitimacy and Corporate Profits

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Understanding the Object of Study: Contradicting the Prevailing Point of View²

There exists a body of evidence suggesting that Russia's energy sector-based interests are not monolithic. On the contrary, and quite intuitively, Russia's political economy is fractured along institutional, temporal, and informational lines not just at the various levels of the country's federal system, but also along the economic value chains that define the Russian energy sector. In order to tease these political, economic and social nuances out from the context in which they are embedded, it is felt that current research needs to move away from the shadow of neo-Kremlinology and expand its scope to reconsider the existence of fissures among political and economic interests, identify competing elite groups within the federal institutional structure, and understand the structural conditions that contribute to strategic decision-making process of the Russian Federation. Based upon several years of research conducted at the Aleksanteri Institute, four separate deficiencies concerning the nature of the structure of Russia's political economy have been identified and will be discussed in turn below.

Conceptual Weakness I: Bargaining within the Russian Federal System

Powerful actors and interests continue to possess, although arguably to a much reduced degree, the ability to influence the shape and nature of the Russian state. In that context, the Russian federal system and decision making at all levels of the hierarchy may not be fully institutionalised according to traditional western conceptualisations.³ Instead, policy formation is highly personalised; and related elite competition is motivated by a pragmatic approach to "solving" significant macro political and socio-economic policy issues by limiting the influence of existing institutional-bureaucratic structures. In this sense interest competition among and organisation of preferences at various levels of the federal hierarchy may be modelled more

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² For more information, see Dusseault (2009).

³ Max Weber's conception of the legal rationalisation of power comes to mind here.

effectively as social networks (Pappe, 1995), or nested bargaining games (Filippov, Ordeshook & Shvetsova, 2004; Dusseault, 2008a).

Lack of Substantive Empirical Data: Differentiation in and the Nature of Rent Distribution

We lack up-to-date data concerning the socio-economic and political conditions that exist in the regions and how the variation among the federal units influences the implementation of corresponding federal policies. If the institutional decision-making process of the Russian Federation is as personalised as presented above, then it is not unreasonable to expect that the level of variation in rent distribution among the regions and the federal centre is highly diversified, too (Bradshaw, 2006). The way in which various regional groups form their economic and political preferences is influenced by sundry forms of economic, political, and social path-dependencies (Filippov & Shvetsova, 1999). In fact there is evidence which clearly demonstrates that at various institutional levels, competing interests and institutional structures symbiotically interact to form respective political and socio-economic policies at corresponding layers of the federal system (Aalto, Dusseault, Kennedy and Kivinen, 2008; Dusseault, 2008a).

Absence of Scientific Enquiry: The Dissonance between Regional Socio-economic Development Strategies & Corporate Cost / Benefit Maximisation Analysis

The socio-economic situation throughout the Federation has been complicated by the distancing of the socio-economic from the political following the collapse of the Communist Party's nomenklatura in 1991. Within increasingly neo-liberal economic parameters, expectations and legitimacy of the political elite differ greatly from those of the business community. Under "ideal" market conditions, political elites rely upon service provision for their legitimacy in front of the voting and tax paying public. In contrast, business interprets its socio-economic value through the spectrum of "bottom line" profit maximisation / cost-benefit calculi.⁴ This gap among expectations and sources of legitimacy for political and economic elites presents the greatest challenge to Russian macro political and economic strategies. This seems increasingly relevant to the argument especially under conditions that will see the competition among the regions over federal funding and private sector investment surrounding the development of their specific resource bases increase.⁵

Conceptual Weakness II: The Russian Energy Sector as Export Only

Russia is not just an energy exporter, but an importer, a transit state, and a consumer. Plainly

⁴ This is an extension of the argument put forward by Kivinen (2007) in which various actors frame their particular strategies in a given sector according to their own perceptions of the existing policy environment. See Dusseault (2008b).

⁵ Expert Online 2.0 (2007) A Period of Competitive Federalism Awaits, Expert No.44 (585) 26 November 2007.

put, the Russian energy export sector may be a means to serve domestic ends.⁶ Russia's energy complex encompasses other components of the value chain that have been heretofore missing in the western securitised discourse: power generation, grid organisation and transmission; district heating; as well as the processing and refining of hydrocarbons for domestic industrial and retail consumer use. All these segments of the value chain form an organic whole; and it would be difficult to argue that as a separate entity, any specific segment could be considered either economically commercialisable or the sole source of political legitimacy for any elite over the long term.

Determining the Research Focus

The most significant conclusion to be drawn from the four critiques provided above is *that under complicated and variable structural conditions⁷, actors in Russia's energy sector are attempting to maximise their political power and economic wealth while simultaneously attempting to efficiently distribute the costs and benefits associated with the country's energy sector not only to external consumers, but to domestic constituencies as well.* This significant finding requires a reformulation of the key assumptions concerning this paper's approach to understanding the structures that govern actor agency in Russia's energy sector:

- Current structural conditions observed in Russia mirror in detail a classic wealth and power distribution issue familiar to all social scientists;
- Actors' expectations, the structure of the energy sector's value chains, and the Russian Federation's institutional environment play a significant role in the observed dissonance between socio-economic priorities and cost benefit maximisation strategies; and
- It is this dissonance, not popularly prescribed regime type which poses the greatest challenge to efficient organisation of the country's energy sector and overall political economy.

Changing Structural Conditions Observed in the Russian Energy Sector

It is evident that the institutional collapse of the USSR not only created new states, but fractured a unified system of interests based on and infrastructure for the exploration, extraction, processing, transit and distribution of hydrocarbons. In the now defunct Soviet energy ministry's stead, new political structures, economic incentives, institutional arrangements and multiple actors have populated the Russian energy sector.

⁶ See Russia's Energy Strategy to 2020 accessible at, [http://ec.europa.eu/energy/russia/events/doc/2003_strategy_2020_en.pdf].

⁷ Economic, Physical, Institutional & Informational factors are the independent structural categories that influence the nature of the policy environment. See Aalto, P. et als (2008).

From the domestic perspective, the distribution of federal and regional competencies in the Russian energy sector is characterised by varying degrees of decision making influence over and institutional access to various components of the energy sector's economic value chain.⁸

Table 1 Breakdown of Company Activities along the Oil and Natural Gas Energy Value Chain⁹

Company Type	Upstream Sector	Value-added Sector	Downstream Sector
Federal Monopoly	Gazprom, Gazpromneft, Rosneft,	Rosneft, Gazprom, Gazpromneft	Tranzneft, Tranzgaz
Regionally owned	Bashkortneft, Tatneft	Bashkortneft, Tatneft	-
Privately Owned	Lukoil, TNK-BP, Surgutneftegaz	Lukoil, TNK-BP, Surgutneftegaz	-

Starting at the extreme end of the upstream sector, ownership of fields and extraction industries is dispersed among federal owned monopolies, private Russian firms, private foreign firms, and in some cases, regional governments. Moving on to the value added sector, ownership of refining and other processing industries roughly mirrors that of the upstream, but is under the auspices of regional governments.¹⁰ In the downstream, transit, distribution, and export of hydrocarbons and electricity transmission is the domain of federal monopolies. To distil this division of competencies further and make it relevant in the Russian federal context, it can be said that federal interests control transit and export of the energy sector's production, while regional interests hold sway in the value added industries of processing and refining of raw materials.

An Energy Strategy to Match Changing Structures

Russia's energy strategy to 2020¹¹ had clearly defined two major vectors along which the country's domestic and external energy strategies would develop. Concerning the domestic sector, a policy of vertical integration of the oil sector as well as continued centralised control over revenues and decision-making in the gas sector would form the basis for the country's continued socio-economic development. Externally, the government as well as the country's energy majors have pursued a policy of monetarisation of CIS energy trade along with market expansion to maximise the lucrative oil and gas revenues in strategic markets such as Western Europe.

⁸ This conceptualised division of economic capacity and political competencies among federal and regional interests is based on similar categorisations, departmentalism versus localism, developed by Rutland (1993) and Gel'man et al. (2000).

⁹ Information presented shows only firms of federal significance and was compiled by author from company sources on the Internet.

¹⁰ Taxes on economic activity are not the only contributions to the regional budgets that energy firms make. Other forms revenue streams include surcharges on extracted resources; in kind contributions of refined products to regional institutions or corporate tax relief for investments made in the region are also made. For such data on Tomsk Oblast see appendix I and II at the end of this paper.

¹¹ [http://ec.europa.eu/energy/russia/events/doc/2003_strategy_2020_en.pdf].

In the latest version of the Russian Energy Strategy¹², policy makers and sector experts are turning inwards to address serious physical, institutional and market based challenges faced by the domestic section of the industry. Rather than focusing on continued consolidation as was the focus previously, the new strategy outlines a programme of investment directed at developing the value added section of the production chain as well as tackling energy intensity. This strategic alteration will require a more flexible approach to an increasingly complicated and shifting resource base, the establishment of corresponding institutional structures to underwrite efficient cost-benefit distribution, and finance for technical innovation needed to make the necessary efficiency upgrades throughout the sector.

A Changing Resource Base & Challenges to Development

One of the major misconceptions on the part of outside observers regarding the upstream sector is that fields are more or less homogenous reservoirs of oil or gas which only need to be tapped and connected to infrastructure to get the goods to market. Perhaps Russia's major oil and gas fields in the Urals and Western Siberia have contributed to this myth. Nevertheless, with the slow maturation of these super giant fields, the structure proximity and associated costs of developing the resource base, especially in the gas sector is changing.

In terms of gas, the fields that have been proposed as sources for Nordstream, only Yuzhno-Russkoye is located inland, albeit in an area covered by permafrost. The Shtokmann field is under the Barents Sea, far from coastal storage and transit infrastructure. Yamal's fields consisting of both on land and offshore reservoirs can be divided into three groups along the spine of the peninsula; Northern, Central and Southern. Each group presents a specific engineering challenge due to location (with some fields submerged for 6 months out of the year), the climactic conditions (Russian Far North) size and grouping of the field(s), along with proximity to existing infrastructure, if at all (Stern, 2005; Remes, 2008).

The picture for oil is similar in many senses. The reserves are following a analogous migratory pattern towards eastern Siberia. Even though there are several massive deposits located in the east, the majority of the fields are becoming more complex in terms of the geological structure and in the majority of cases the fields are smaller in amount of reserves. An additional factor that does not bode well for Russia's eastern oil concerns the commodity's overall quality. With some exception, the oil west of the producing fields in the Urals and Western Siberia are heavier and contain more impurities, thus increasing the oil's refining costs.

The point here is that although Russia may possess substantial oil deposits along with the largest gas reserves in the world, just the physical conditions under which these projects will be exploited present significant obstacles in terms of technical feasibility, extraction amounts, value-maximisation of the gas, environmental protection, and inevitably, bottom line cost for the end-consumer.

¹² [http://www.iea.org/textbase/work/2008/neet_russia/Gromov.pdf], and [<http://www.energystrategy.ru/materials/koncepc.htm>].

Consumer Demand for Hydrocarbons

Russia is not only a producer of, but before the financial crisis, possessed a burgeoning domestic market for its own natural gas and oil. It has been reported that 60 percent of natural gas produced in Russia is consumed on the domestic market, predominantly by industry.¹³ With the creation of the country's gasification programme¹⁴, additional domestic demand side pressure has been added to an already tight external market for Russian gas.

Previous research has found that in terms of domestic consumption of Russia's natural gas, major contradictions exist beyond the differentiation of prices charged to Russian, CIS, and European end consumers. Strategic fissures have been observed among the preferences of regional elites who want to control more of the financial flows that are derived from hydrocarbons on their territory and companies that prefer to maximise their profits abroad on the world market. A sum zero game over finite hydrocarbons may develop if a structural balance between regional socio-economic needs and corporate profits is not maintained by federal authorities.¹⁵

In a worse case scenario, the Russian plan to gasify the regions would end up wasting more gas in the long run by committing resources to inefficient power plants for municipal heating of flats that lack proper insulation, metering and other incentives that promote conservation on the part of individual consumers.

Institutional Structures & Resource Rent Flow¹⁶

The relation among Russia's regions and the federal centre is a key factor in determining the structure of the country's energy sector. Variations in asset ownership cannot be generalised especially when analysing regional energy sector structures. Therefore, subsequent rent sharing carried out by the federal centre has resulted in an imbalanced distribution system for political as well as socio-economic costs and benefits among the federation's 82 regions. Cooperation among regional elites, federal monopolies, and the business community are highly personalised, with final say resting with the presidential administration in Moscow.

Energy sector entities' expectations, risk assessments, and resulting strategic agency are varied. The nature and degree of variation does not depend solely on actors' understanding of the policy environment or their position along the value chain. An additional factor may be an actors' particular interpretation of the value of the good which they are attempting to maximise. Businesses interpret hydrocarbons as basic economic goods. At different stages of a company's value chain (power generation, processing, or export), profit derived from raw natural gas and oil, increases or falls depending on the presence and structure of several externalities (world demand & price).

¹³ Gazprom Reshuffle Follows Warnings of Domestic Gas Shortage, [[http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=32250](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=32250)].

¹⁴ In 2007 the Russian government set aside 760.5 m USD for gasification in 58 of the country's regions. See, [<http://en.rian.ru/russia/20070218/60911275.html>].

¹⁵ Interview with Krasnoyarsk governor Khloponin in 2007. (Expert 44 (585): 2007)

¹⁶ For more detail see Dusseault (2008c)

Simultaneously, regional and the federal administration perceive oil and natural gas differently. Regional hydrocarbons are not purely economic in nature but resources that possess varying degrees of social benefits for the regional population and political value for the administrative elite (regional gasification) (Dusseault, 2008c). For federal elites, the country's hydrocarbons represent massive budget revenues for federal coffers.

Consequentially, resources provide a large degree of political and economic legitimacy as long as the policies with which the business community and the political administration are associated have benefits for other sectors of the trade and society on the whole. In the present Russian system, these relationships among actors and structures are under-institutionalised. According to this conceptualisation, it is very difficult to imagine that long term efforts to further develop priority projects in the energy sector can be coordinated without a monopoly actor, be it the Kremlin, Rosneft, or Gazprom.

The Political Economy of Russia's Energy Sector: Evidence from Tomsk Oblast

As was posited at the beginning of this chapter, the correlation among energy sector political and economic interests is difficult to determine with any degree of measurable certainty. This uncertainty is due to the variation in the distribution of resources, the heterogeneous structure of the Federation's institutional arrangement for distributing financial costs and benefits, along with the accuracy of actors' interpretations of the policy environment. The next section will attempt to illustrate the manifestation of these various factors by looking at the development of energy sector interests first in the parliament of Tomsk Oblast. The resource discourse will be then examined in the federal context. Finally a historical analysis of the region's oil and gas sectors will be presented.

Regional Socio-economic Profile¹⁷

Like the neighbouring regions to the North, Tyumen Oblast and Khanti-Mansiisk AO, Tomsk is an oil and gas producing region. As such the region's socio-economic profile, which ranks close to the Russian federal average in several development indicators, displays several important distinctions which may be attributed to the structure of the region's economy and the historical legacy of the Soviet period.

The regional economy is directly linked to the extraction and processing of Tomsk Oblast's hydrocarbons. Since the collapse of the Soviet Union in 1991, the region's energy sector has become increasingly focused on maintaining upstream operations. While the exploration and drilling for oil and gas in Tomsk provides much needed budgetary revenue for the regional administration,

¹⁷ See Socialnyi Atlas Rossiskikh Regionov/Portreti Regionov Tomskaja Oblast available at, [<http://atlas.socpol.ru/print.asp?f=/portraits/tomsk.shtml>].

the picture becomes more complicated when examined within the federal context.

However, unlike its northern neighbours, Tomsk's hydrocarbons are predominantly in the hands of Russian energy monopolies. Tomsk's impressive rate of industrial growth has mirrored the fate of major firms such as YUKOS (now owned by ROSNEFT), its former daughter company Tomskneft, and Tomskneftekhim Kombinat, currently owned by Gazprom through the Sibur holding company. This makes the region not only vulnerable to price fluctuations on the world market where these companies make most of their economic profit, but to the whims of corporate interests which are not based in Tomsk.

In political terms, owing to lack of ownership in the above operations and the region's status as a donor to the federal budget, much of the financial flows garnered from Tomsk's hydrocarbons are passed on to Moscow's coffers; and are subsequently distributed as financial transfers to poorer units throughout the federation.

While economic and political factors colour the Tomsk case in a unique way, the historical legacy of the Soviet Union's collapse in 1991 has added to the contradictions the region faces in its pursuit of socio-economic development.

If the lack of control over financial flows did not pose enough challenges to the future of the region's socio-economic development, the historical legacy of the Soviet Union's collapse in 1991 provides more contradictions for the regional leadership. As in other regions in Siberia, the Soviet attempt at developing the resources of Western Siberia has manifested itself unevenly geographically as well as throughout various strata of society.

The capital city, Tomsk, as well as industrial centres such as the city of Strezhevoi in the north have benefitted from the pooling of economic and political benefits. However, these centres of economic, social and political activity are isolated islands, separated from struggling, rural populations by the lack of basic infrastructure, the collapse of rural industries such as forestry, and regional budgetary constraints.

The resulting policy environment is populated by incongruities. On the one hand, the region arguably possesses the natural and human resources needed to diversify the region's economic and further improve the general living standards. Nevertheless, the regional leadership has its hands tied in terms of what resources the administration may employ to improve cost-benefit distribution among the various groups within society.

Parliamentary Power in Western Siberia

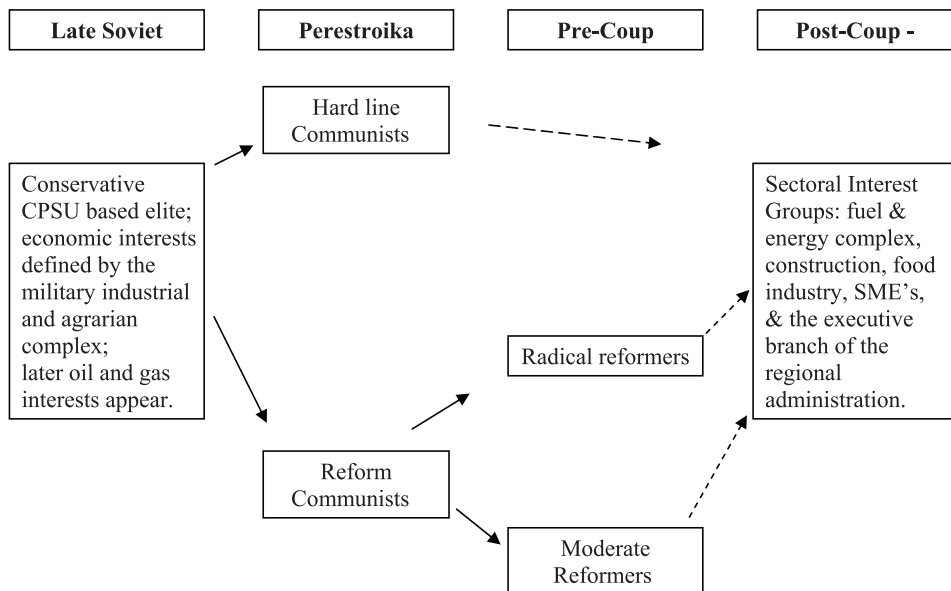
Tomsk Oblast is located in the West Siberian Federal Okrug, three time zones to the east of Moscow. Historically, before the coming of the Trans-Siberian railroad in the latter part of the 19th century, Tomsk occupied a position of economic and political importance in western Siberia. For much of the czarist period, Tomsk was a major centre for natural resource extraction, mainly gold, and was the political-administrative centre for a large swath of Siberia, which at some point included the northern parts of present-day Kazakhstan.

After World War II, Tomsk regained prominence under the Soviets with the advent of the

military industrial and agrarian complexes to the region. On these two highly centralised economic sectors, Tomsk's regional leadership and the fortunes of the population itself depended. During the late Soviet period, significant reserves of oil and natural gas were located in the Oblast and the energy sector began to grow in economic prominence and political stature right up to Perestroika.

During the 1990's Tomsk suffered through many of the familiar political and socio-economic traumas associated with the late Perestroika and early Yeltsin periods of the early to mid 1990s. With the soviet and later Russian federal centres forming no more than institutional power vacuums, financial and political support for the regions from Moscow ceased to exist. Tomsk's federally orientated energy, military and agricultural complexes atrophied. Political turmoil ensued; and many members of the region's soviet era Communist Party nomenklatura gradually lost positions of economic, political and social significance as the decade moved on.

Figure 1 Transformation of the Tomsk Elite 1986-1993¹⁸



The reasons for the elite transformation in the region are manifold. Yet it is possible to divine several of the major contributing factors: general economic downturn due to economic liberalisation programme; lack of investment and maintenance in regional industries; the decline of the military industrial complex; a decline of export revenues; and the influx of Russians from near abroad (Hughes, 1994).

While the federal level political and economic institutions in Moscow were powerless to reign in the forces at work in the regions, new interests, some based in the old soviet cadre, others in industry and still more in soviet society itself filled in the institutional gap (McAuley, 1997; Tarusina, 2003). Pressures from these groups espousing their own competing interests gained more

¹⁸ Information compiled by author from Tarusina (2003) and McAuley (1997).

say in the formulation of the regional political and socio-economic agenda-setting observed both during perestroika and the Yeltsin administration's first years in government after the coup in 1991.

While the institutional power vacuum in Moscow was increasing under Yeltsin, Tomsk's political leadership, in the form of the regional parliament, understood early on that the only people that would be able to tackle the severe political and socio-economic crisis facing the region, would be the Oblast's political leadership itself. In 1993, the representative power of the regional political elite broke away from the defunct Soviet legislature and a new representative body was elected.

In the first year of its existence, the regional Duma set out to establish the fundamental institutional structures for the Oblast including the setting of the regional legislative system, establishing the status of Tomsk Oblast within the Russian federal framework, the organisation of regional administrative power throughout the Oblast, ascertaining the responsibilities and competencies of various levels of the Oblast's administrative structures and various laws which determined the basis for the region's economy (Tomsk Parliament, 2004, p. 12).

Despite being able to lay the institutional foundation for the region, the newly elected representatives confronted serious challenges to the overall stability of the region for which many of them did not have the relevant experience or requisite skills in public administration. Instead representatives attempted to overcome substantial policy hurdles through guile, pragmatism and compromise. While priding themselves on their ability to remain a successful counter-weight to corporate interests and the regional executive branch, the representatives in the Duma based their political legitimacy not only on their ability to produce policies for the reconstruction of the region's institutions and economy, but by delivering services to their localities as well.¹⁹ These tendencies can be observed in the parliament's relationship with regional energy interests.

The political stability and economic health of the region was, and remains to be tied to the fortunes of the region's oil and gas sector. However, during the economic crisis of 1993, the local workforce was seen as a liability by many firms who were predominantly concerned with cutting costs and preserving their economic profits. Salaries went unpaid, unemployment in the oil sector increased, while company subsidies for schools, hospitals, and social services were cut. In response, representatives from the oil producing regions effectively formed an opposition to the regional oil company within the legislature in an attempt to bring the companies in line with societal demands (Tomsk Parliament, 2004, pp. 13-14).

Another fraction in the Tomsk parliament represented the Oblast's industrial sector. Representatives in this block felt that without the sponsorship of the major regional economic interests, many practical projects for their constituencies could not have been pushed through the Duma for financing. Major firms such as the region's primary power generator, Tomsk Energo backed parliamentarians who themselves were seeking a compromise between the business priorities of their corporate sponsors and the socio-economic needs of their voters (Tomsk Parliament, 2004, pp. 35-36).

¹⁹ As anecdotal evidence, the first speaker of the Tomsk Parliament, Boris Maltsev was openly opposed by the Kremlin. Moscow's disfavour existed to such an extent that it proposed its own candidate for speaker, Aleksander Fedenev (Tomsk Parliament, 2004, p 18).

Tomsk Oblast & the Siberian Agreement

The various financial, political and social issues that the leadership of Tomsk Oblast was dealing with at the time were not unknown to the other Siberian regions or throughout the Russian Federation on the whole following the collapse of the USSR and the shelling of the State Duma by Yeltsin in 1993. Instead of going it alone, Tomsk Oblast was a member of a collective bargaining organisation known as the Siberian Agreement (Hughes, 1994). Many of the federal units, from the eastern edge of the Ural Mountains to the Kamchatka peninsula shared Tomsk's economic and political troubles. Although they were an economic, socially and politically heterogeneous group, the 19 regions were able to find a common language of concerns vis-à-vis Moscow centre.

The agreement was not formed to seek independence from the Russian Federation, but essentially was an attempt to re-address the historical economic and political imbalances the regional leadership perceived as the major contributing factor to Siberia's persisting under-development despite its phenomenal endowment of natural resources (Hughes, 1994, p. 1148). In fact it can be argued that the Siberian Agreement was a collaborative response to the major challenge to the stability of the Russian federal system at that time: *the organisation of rent distribution among a large group of political units that are economically, politically, and socially heterogeneous under conditions of widespread institutional uncertainty.*

Despite the awarding of concessions²⁰ to the members of the Siberian Agreement by Yeltsin, the Agreement slowly began to fade in terms of political relevance by the mid-1990s. The Siberian Agreement is an important event in the post-coup history of Tomsk Oblast. The appearance of the grouping itself brought to the fore the overarching, shared concerns of individual Siberian regions, of which Tomsk Oblast was one. This is not to say that, the Siberian Agreement was an effective tool to fully re-address the economic and political balance between the federal centre and the regions in the long term, but it succeeded in brining one important fact to the attention of the powers that be in Moscow: *to secure the stability and longevity of the nascent Russian state, the political and socio-economic aspects of persisting underdevelopment in Siberia would have to be dealt with in the near future.*

The Structure of Tomsk's Energy Sector in a Historical Context

It can be argued that over the past fifty years, the fortunes of the Soviet Union and later on the Russian Federation energy sector have mirrored the specific aspects of the country's economic and political evolution. Besides referencing the obvious peaks and valleys in hydrocarbon production from the late 1960's to the present day, the parallel between the energy sector's condition can be mapped through the development of the relevant federal and regional legislation. Following the legislation from 1995-2008²¹, it was found that the executive and representative branches of

²⁰ These included increased export quotas, a regional collateral investment fund, a regional oversight commission, a trade committee, and the establishment of a 20% regional structural fund (Hughes, 1994, pp. 1143-1144).

²¹For a chronicled list of the relevant energy sector legislation from 1995-2008, please see Appendix I & II at the

Tomsk Oblast's leadership understood the need to create the corresponding legal conditions for the region's resources and industry to return to profitability in the evolving political environment of Yeltsin's Russia.

From the outset, there has been a consolidated legislative effort to set the basic rules governing sector's key economic and legal aspects including ownership, licensing, and taxation under market conditions. There have also been gradual attempts to leverage the region's reserves against capital investment in the various sectors along the energy value chain. Finally, there is evidence that the local administration and the Duma have a great interest to develop the region's resources beyond the existing parameters. Actions taken include organising regional seminars and international congresses to address the future directions that the industry may take such as technical development and regional gasification of power generation for industrial and domestic consumption.

YUKOS, the Fall of Khodorkovsky and the Advent of a Brave New World

Tomsk Oblast's major oil producing company is Tomskneft VNK²², which is located in the northern town of Strezhevoi. Formed in 1966 as the Tomsk industrial association, Tomskneft was privatised in 1993 and was a major production unit of the Vostochnaya Neftovaya Kompaniya (VNK). In the mid 1990s, YUKOS became the majority owner of VNK and thus Tomskneft VNK became a daughter company of YUKOS. During the YUKOS years, the relationship between the regional authorities and the oil company was symbiotic. Both sides acknowledged that they shared commonalities in terms of their relevant strategic interests.

For YUKOS, the company's image as a contributor to the regional economy was carefully groomed through its business activities as well as supporting socio-economic projects²³ that aided both the regional government²⁴ and society on the whole.²⁵ Simultaneously, the regional leadership acknowledged that without the cooperation of the oil companies, the political elite would have a much harder time meeting its socio-economic and political responsibilities in front of their local constituencies.²⁶

end of this paper.

²² For more information see [http://www.rosneft.com/Upstream/ProductionAndDevelopment/western_siberia/tomskneft/].

²³ YUKOS through its subsidiary company Tomskneft was very active in supporting the regional medical services by supplying training and technology to the staff of regional hospitals and polyclinics. The company was also involved in sponsoring employment fairs for local students in an attempt to fill the company's ranks with home-grown talent which would eventually make up the next generation of the company's leadership cadre.

²⁴ Taxation of corporate profits is only one aspect of the relationship between YUKOS and Tomsk Oblast. The roles taken on by the companies and the socio-economic needs of the region were manifold. Subsequently in early 1998, the regional administration determined that relations among Tomskneft VNK, the company's owner YUKOS, and Tomsk Oblast needed to be coordinated by special committee. See Appendix I: Legislation in Tomsk Oblast's Gas and Oil Sector 1995-2001 at the end of this chapter.

²⁵ According to YUKOS' executive board, following the arrest of Khodorkovsky, the company continued its normal business activities. At the time Tomskneft contributed 20mt of oil. Based on these numbers, the company was able to provide close to 3.1b RR in socio-economic support for the regions where the company worked. This total represented a doubling of the company's social contributions over a four year period. See "YUKOS will not Surrender its Position," *Tomskaya Neft*, 6 March 2004.

²⁶ In an interview granted to the Strezhevoi newspaper *Tomskaya Neft*, the Governor of Tomsk Oblast Viktor Kress

While the balance of interests between a profit making enterprise and the regional government was maintained during the YUKOS period, the unbalanced nature of the regional economy was the proverbial “elephant in the room” for the regional administration. This stress began to appear after the arrest of Khodorkovsky and continued following the completion of bankruptcy proceedings against YUKOS in 2006.²⁷

Following the bankruptcy of YUKOS, the controlling package of Tomskneft VNK was sold to Rosneft in spring 2007. Half of the company’s stock package was then sold by Rosneft to Gazpromneft in the winter of the same year. Although the relationship between the company and the regional administration has on the surface remained constructive, the region’s concerns of over-dependence on a federal-based monopoly have intensified:

“Tomsk Oblast, in which one of the major natural resources is oil, has made the decision to develop Greenfield projects. In a region which occupies one of the top spots in hydrocarbon extraction in Western Siberia, since 2005 the amount of oil pumped out of the ground has gradually begun to decline. The total reserves of the region have shrunk, symbolised by lower growth in hydrocarbon recovery” (Big ambitions, 2008).

As the opening quote demonstrates, the prognosis for the region’s oil and gas industry is not particularly optimistic in the short to medium term.²⁸ Signs for concern began to appear already in 2002. At that time, the Federal agency responsible for licensing new hydrocarbon exploration opened up the tendering process for geological survey’s of the Ob river’s right bank in Tomsk Oblast. In pursuit of new sources of hydrocarbons, investment in seismic research shot up from 686,9m RR to a peak of 1365, 4m RR in 2003.²⁹

Despite the gloomy forecasts, both the region’s administration and the companies involved in the oil and gas industry in Tomsk Oblast have several strategic options open to them to deal with the increasing decline of the brownfield projects. Before beginning to tackle the structure of the region’s oil and gas industry and what it means to the administration’s socio-economic plans, it

outlined the primary structural challenge facing the region. While producing the highest rate of industrial growth in the Siberian Federal Region, the Tomsk economy was too dependent upon the energy industry from production and economic growth. At the same time, the majority of proceeds were made from the exploitation of the region’s resources were sent to Moscow (10b out of 25b RR). See “When We Talk about Success, We Mean Oil,” *Tomskaya Neft*, 7 February 2004.

²⁷ Discussions in the local press to assuage employees for Tomskneft were published with regularity. The major of the city of Strezhevoi where Tomskneft’s production facility is located spoke publicly about the uncertainties presented by the YUKOS bankruptcy at the local Duma. See About YUKOS, a Bridge and a Jubilee Tomskaya Neft 5 August 2006. These concerns spread to the regional gas sector as well. The Tomsk Parliament was so concerned about the overall state of the regional energy sector after the bankruptcy of YUKOS that representatives composed a letter to then Prime Minister Fradkov and the head of Gazprom Aleksei Miller requesting financial aid to help in exploring for new resources and developing infrastructure for the region. See Appendix II: legislation in Tomsk Oblast Gas and Oil Sector 2002-2008 at the end of this paper.

²⁸ In order to keep the region’s oil and gas industry profitable and the economy in balance, the region’s producers need to recover 18-20 mt of oil and gas (oil equivalent) annually. See, Administrative (2007).

²⁹ It is interesting to note that while the process of exploration was initiated by the federal authorities, the bulk of financing for the seismological surveys came from the private sector (Drilling in Tomsk, 2005).

may be helpful to look at the region's production in the federal context. The table below outlines Tomsk's oil and natural gas production in comparison with other regions either currently or in the future, earmarked to begin production of oil and natural gas.

Table 2 Tomsk Oil and Natural Gas Production in the Federal Context³⁰

Region	Oil and Gas Condensate Percentage of national gross 2005 / amount (million tonnes)	Natural Gas Percentage of national gross 2005 / amount (billion cubic meters)
Tyumen (Total)	68,1% / 320 mt	91,3% / 585 bm3
Khanti-Maisiiskii	57,0 %	04,3%
Yamalo Nenets	10,8 %	87,0%
Irkutsk	0,03%	0,8%
Sakha	0,09% / 0,412 mt	0,2% / 1,6 bm3
Tomsk	2,5% / 11,7 mt	0,8% / 4,638 bm3
Sakhalin	0,85%	0,3%

At a quick glance, the numbers for oil and gas production compared with the total produced in Tyumen Oblast are small in the federal context. However, according to company sources and the local administration in Tomsk, the region's largest oil company, OAO Tomskneft VNK³¹, activities on the ground contributed 3.6 billion RR to the local budget in 2007. Continuing investment in the region's energy sector will garner a further 11.3 billion RR totalling 4.5 billion RR in taxes for Tomsk's budget in 2008 (Big Ambitions, 2008). However, the predictions for Tomskneft's production over the next several years are not entirely encouraging. It is expected that by 2011 growth in the company's production will only total .6mt. From the outside the numbers for Tomskneft do not bode well for the region's budget or its socio-economic development strategy.

What may provide both the regional firms and the administration with strategic options is the move to explore Tomsk Oblast's territory for hydrocarbon reserves on the east bank of the Ob River.³² According to the Oblast's Deputy Director for Administration, Tomsk's policy in coordination with federal authorities to open up the region for seismic surveys has been a success, even though results for the surveys are still pending. Already, capital inlay in projects involving resource management, geological surveying, and the rehabilitation of existing wells have totalled 21b RR.³³

³⁰ Information compiled by author from Rosstat statistics (2007).

³¹ OAO Tomskneft VNK is currently owned by federal monopolies Rosneft (50%) and Gazprom (50%) (Gazetta.ru 2006 & Expert Online 2008). The company, once owned by YUKOS, controls over 80% of the region's producing fields, holds 17 production licensing agreements in Tomsk Oblast, along with a further 9 licenses for developing unexplored blocks in the region. In 2008 the company is expected to pump close to 8.5mt of oil in Tomsk Oblast.

³² Tomsk Oblast is dissected almost down the middle of its territory by the Ob River. To the west and north of the river lie the bulk of the region's oil and gas reserves already under production. It is these fields that form the base for the region's oil and gas production. However, due to the steady decline in these fields' production, the local administration and sector interests have begun to look towards the right bank of the Ob to replace and significantly increase the region's falling production (Big Ambitions, 2008; Expert Online, 2007).

³³ The investments in the right bank from the Federal government alone total 1b RR. (Administrative, 2007).

Approximately 20 companies have been active in developing the region's oil and gas resources (Big Ambitions, 2008). Smaller firms such as Tomskburneftegaz, Russneft, Imperial Energy, and Petroneft Resources Plc could be responsible for 20-30% of the region's output by 2010 according to the regional administration's estimates (Ibid.). These companies are contributing to the diversification of the industrial activities region's upstream sector which is also populated by major firms Gazpromneft, TNK-BP, Gazprom, and Surgutneftegaz.

Table 3 Breakdown of the Firms in Tomsk Oblast along the Energy Value Chain³⁴

Company Type	Upstream Sector	Value-added Sector	Downstream Sector
Federal Monopoly	VostokGazprom (OAO Tomskgazprom); Gazpromneft; Rosneft (Tomskneft VNK)	Tomskneftekhim/Sibur (Gazpromneft /Sibneft); Rosneft (Tomsknefteprodukt & Strezhevoi NPZ)	VostokGazprom r.Omsk (OAO Tomskgazprom); Gazprom Tranzgaz Tomsk; Tranzneft
Regionally owned	none	none	none
Privately Owned (f = foreign owned)	TNK-BP; Surgutneftegaz (?); Imperial Energy (f); Tomskburneftegaz; Russneft (ZAO Tomskaya Neft/Sobolnoye); Petroneft Resources, Plc.(f) & VTK(?)	Petroneft Resources Plc. (Kolpashevsky region)	Imperial Energy (f); Petroneft Resources Plc.(f)

Another positive development for the region's energy sector is the involvement of Tomsk based enterprises in the business. The majority of firms analysing or supporting the scientific surveys are registered in Tomsk. Engineering services are provided by local experts, and the field work is conducted again by Tomsk based firms. The region's universities are also involved. According to the administration, it is estimated that 85-87 percent of the work is carried out by Tomsk workers (Administrative, 2007).

There are concerns regarding the diversified energy sector in terms of taxation, involvement in socio-economic development, and the region's investment environment, too. The administration's ire does not fall entirely upon the shoulders of the region's new comers. In fact, the brunt of the administration's criticism rests at the feet of Tomskneft VNK.³⁵ Since the company is controlled by the federal oil giant Rosneft, company policy is formulated not in Tomsk, but in corporate headquarters in Moscow. For the regional administration having policy formulated 56 hours away means a certain degree of economic and institutional aloofness on the part of federal energy interests from the energy sector priorities and socio-economic needs of the Oblast.

“Since we established that as a producer needs to be registered in the Oblast to receive the

³⁴ Information compiled by author from relevant corporate sites on the Internet.

³⁵ In 2008, the ownership of Tomskneft VNK was again in question. Once owned fully by the federal oil company Rosneft, half of Tomskneft's stock package was put up for sale with Gazprom's affiliate Gazpromneft offering 3.4 -3,6b RR for the deal. Behind the very public sale swirled concerns over the company's falling oil recovery rates and growing tax debt of 9b RR. See Tomskneft in Half (2008).

operating license, we collect the taxes here in Tomsk. However, when the discussion concerns oil and gas extracted by vertical federal holding firms, taxes are exclusively collected for refined products. It is difficult to argue with this – such is the law...” (Tomskneft in Half, 2008)

The issue of taxation between the region and Moscow is very sensitive. According to regional sources, in 2006, the region lost 3mt of production, which translates into 1b RR of losses for the Tomsk budget. Some of the loss was made up by the increase in world prices of oil. However, as it is argued by the administration, if adjustments to the taxation regime are not made and prices fall, the fall in budgetary funds could be too substantial to overcome at then production and pricing rates (Ibid.).

In order to increase the region’s competitive advantage in the energy sector, the administration has suggested relaxing the tax burden or even tax holidays for new investors. In addition, the experts admit that new infrastructure needs to be constructed to ship the region’s resources out to new markets in Asia, providing producers with new, more proximate markets for their products. Another innovative suggestion is the creation of a regional stabilisation and investment fund which would support new companies entrance into Tomsk’s energy sector by providing the necessary capital to cover initial start-up costs (Ibid.).

Still, new companies in the regional have faced predatory behaviour by federal monopolies. The most recent case involved the British owned firm Imperial Energy (Russian-British Conflict, 2007). The company’s licenses for the right bank of the Ob were called into question by the Russian Ministry of Natural Resources. It was reported that Imperial Energy had exaggerated the reserves held in three fields for which the company held the operating licenses (Tricky Licensing, 2007). Despite the problematic circumstances, Imperial successfully lobbied its case in Moscow and retained its right to develop the three fields in question.

Beyond the Siberian Agreement: Tomsk Oblast’s Socio-economic Development Strategy

The basic document outlining the strategic approach to the region’s socio-economic development was formulated by an independent group of development experts and approved by the region’s high committee for economics in 2005. The approaches to the region’s social and economic needs were novel in the Russian context at the time due to the programme’s adoption of a long term scope, yet simultaneously focusing in on the fulfilling of concrete priorities that would contribute to the overall improvement of the region’s socio-economic status within the Russian federal system (Strategia Razvitija, 2007).

Table 4 Selected Socio-economic Indicators for Tomsk Oblast³⁶

General Socio-Economic Indicators	
Population (2006 in thousands)	1033,1
Industrial Production Resource Sector (% of RF)	1,9 %
Agricultural Production (% of RF)	0,6 %
Gross Regional Product (2005 in billions RR / % of RF)	158219 / 0,9 %
Average Personal Income (in thousands RR / month)	9896,5
Unemployment (in thousands / %)	47,8 / 9%

To fulfil the strategy's main goal, the authors outlined several areas in which the region's economy would need to be modified. The region's industrial output would have to become more diversified, thus moving away from traditional resource extraction and the industrial production of the MIC; the conditions for small to medium size businesses would need to be set so that the economy could open up new areas of service provision and production while simultaneously allowing for increased economic competitiveness and growth in Tomsk Oblast; and as a knock-on effect, the successful fulfilment of the latter two conditions would allow for the gradual improvement of the living standards of the general population as well as the overall socio-economic status of the region within the federal context.

As we will see later on, one of the ironic twists that the strategy provides concerns the current main sectors of the region's economy. While acknowledging that the present industrial base of the region is a major contributor to the region's continuing socio-economic development, strategic development as envisioned by the regional administration will inevitably reduce the socio-economic and political importance of the resource extraction industry and to a lesser extent, the MIC sector, upon which the whole strategy is currently based. The inconvenient question that crops up at this point is how do the regional administration and the affected industries come together and form a stable consensus regarding the nature of the region's socio-economic development? This question is not only relevant for the policy makers and vested interests involved in the process themselves, but for researchers who are trying to make sense of this complicated process.

Table 5 Tomsk Oblast Selected Industrial Production 2002-2004³⁷

Product	2002	2003	2004
Oil (million tonnes)	10,6 (mt.)	13,7 (mt.)	15,9 (mt)
Natural Gas (million cubic meters mm ³)	4444,1 (mm ³)	5264,3 (mm ³)	5337,8 (mm ³)
Gasoline (thousand tonnes tt)	35,2 (tt)	35,6 (tt)	36,4 (tt)
Polypropylene (thousand tonnes tt)	106,2(tt)	105,4(tt)	106,9(tt)
Electricity (million kilowatt hours mkh)	4665,8 (mkh)	4973,4 (mkh)	5325,5 (mkh)

³⁶ Table compiled by author from Rosstat statistics (2007).

³⁷ Zakon Tomskoi oblasti, 2007, pp. 8-9.

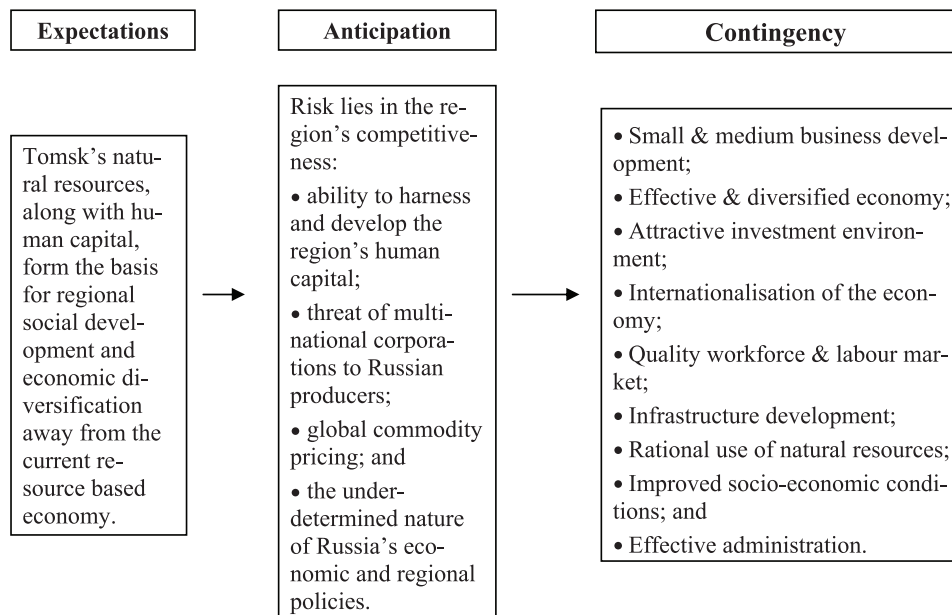
Making Sense of Policy Formation: Expectations, Anticipation, and Contingency

Based upon the work of Aalto et al (2008) and Dusseault (2008b), an effective approach to categorising how actors formulate their strategies and then compete for them under changing institutional, physical, financial and informational conditions has been applied to the Tomsk Oblast socio-economic development strategy.

By reading signals from the policy environment to which each of the four variables listed above contribute, actors form policy *expectations* respective to their conceptualisation of the existing policy space. Subsequently, understanding that both actor behaviour and the policy space itself is volatile and subject to change over time, actors assess changes in the environment and *anticipate* the level of risk these changes may bring to the success or failure of their chosen strategy. In the final stage of policy formation, actors then adopt concrete *contingency* plans that correspond both to their expectations and the anticipated risks derived from the morphing policy environment.

The expectation model is applied to the Tomsk case in figure 2 below. By juxtaposing the framework on the strategy, several crucial points and challenges become clear, especially concerning the influence that the federal structure and the international externalities pose to the region's long term socio-economic development.

Figure 2 Tomsk Oblast's Socio-economic Development Strategy



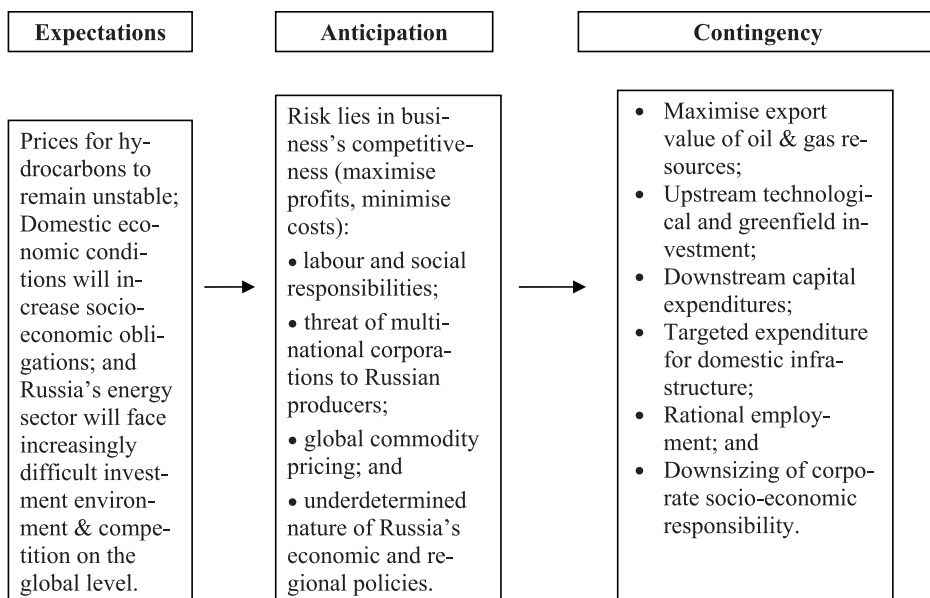
It is of particular interest to the current argument the observed vulnerability of the region's energy sector both federal interests and the commodity prices set at the global level. As stated ear-

lier in this section, the major irony of the region’s development strategy focuses on the central role that the energy sector will plays in the diversification of the regional economy away from the drilling of oil and gas.

Additionally, the regional administration has admitted the underdetermined status of resources between the federal centre and the regions as well as the world price for the region’s hydrocarbons are considerable risks to the region’s long term interests.

The same model is applied to the Russian energy sector enterprises in Figure 3 below. Despite the industry’s obvious market oriented strategy, businesses and the regional administration seem to have some common interests. Those include competitiveness of the regional economy; the effective exploitation of the regional hydrocarbon resource base; the resolution of competencies and relations between the federal centre and the regions concerning the country’s oil and gas resources; the global pricing system for regional oil resources, and a well-educated and competitive workforce.

Figure 3 Expectations, Anticipation, and Contingency for Actors in the Tomsk Energy Sector³⁸



Conversely, there are some areas where the sides’ preferences do not fully agree. It is not entirely illogical to expect that the regional administration would be in favour of more budgetary proceeds for its socio-economic development plans based upon the exploitation of the region’s hydrocarbons; while simultaneously, the companies are seeking to reduce their socio-economic burden in favour of capital investment and tax payments to both the federal and regional authori-

³⁸ Information collected by author from relevant corporate sites, the Russian Energy Strategy to 2030 [<http://www.energystrategy.ru/materials/koncepc.htm>].

ties. Furthermore, the companies, under structural conditions that emphasis export, may see that the most effective way to maximise the value of the resource base is to extract and export as much and as quickly as possible, while the regional authorities on their part would prefer to have the resources' value be spread over a longer term; especially since their constituency is not international consumers, but the local voting and tax paying population.

Where Does Tomsk Go from Here?

The structural conditions observed in the Oblast seem to be conducive to further socio-economic development for Tomsk. The region still possesses hydrocarbon reserves and is pursuing an exploration programme to increase the resource base. The quality of engineering and industrial expertise lends itself to the expansion of a service orientated market for value added industries such as refining along the energy value chain. The political situation is stable with the representative and executive branches of government working in a constructive, if not fully cooperative manner. These factors form a solid basis from which the region's businesses and political elite may move away from a fully resource dependent economy towards a more diversified, knowledge-based portfolio. As noted above, the strategies chosen by the regional hydrocarbon industry and the regional administration are not mutually exclusive. Both perceive the future of the region tied in some form or another to the oil and gas industry. The extent to which the region stays within the current resource extraction paradigm remains to be seen.

The regional administration for its part has been quite blunt in terms of presenting its model for future socio-economic development for Tomsk. Regarding the oil and gas industry diversification translates into increased investment and numbers of actors in the upstream, simultaneous gradual transition away from extraction activities and increased emphasis on the value added sector (refining and engineering) (First Step 2008).

Additionally the administration sees the regional economy benefiting from the expansion of the Soviet era rail system to link the region up with oil producing regions Khanty-Mansiisky in the north and Krasnoyarsk Krai in the east.³⁹ Despite the region's natural wealth, the Siberian climate and physical conditions impede access to the Oblast's resources, subsequently increasing costs and reducing investment potential. According to the regional administration's transport strategy, investments in transport total 578m RR annually. With the realisation of the new rail link and associated projects, that total could reach 15b RR by 2025 (The Road Determines, 2008).

Finally, the region's own energy needs have come into focus under the administration's development plan. Even though the region is richly endowed with hydrocarbons, the majority are controlled and exported outside the region by federal interests. In the meantime, the local population and businesses still need their own sources of heat and power. To put it bluntly, Tomsk cannot generate enough electricity for its consumers and is forced to import power from neighbouring re-

³⁹ Construction on the new SevSib rail link is scheduled to begin in 2010 with initial capital investment (500b RR) garnered from both public and private sources. See Investors Reach (2008).

gions.⁴⁰ In order to tackle this power and heating deficit, the region has undertaken steps with the help of the federal authorities and Vostok Gazprom to undertake an Oblast wide gasification project.⁴¹ Additionally, the regional administration has earmarked the region's nuclear industry for investment.⁴² Both plans would allow for covering the deficit in power generation within the region and potentially allow for exports of electricity to burgeoning industrial centres such as Krasnoyarsk and Irkutsk.

Conclusion: Best Laid Plans & the Questions Left Unanswered

One indelible impression that this case study has provided the author is that the general expectations surrounding the benefits that can be derived from the energy trade are enormous. The structure of the energy policy environment is hypothesised to possess four interrelated independent variables: physical aspects, financial flows, institutional mechanisms, and information. As an extension of this thought, it has been argued that expectations are based upon actors' ability to accurately interpret the structure of the existing policy environment and formulate policies that will maximise their strategic preferences. Furthermore, just how dissonant various actors' expectations are may determine to what extent the costs and benefits from the energy trade may be efficiently distributed among the different interests that populate the policy space.

Physical aspects: One of the essential drivers for actor agency in the energy sphere is the finiteness of oil and gas. Knowing the commodities have the potential to be exhausted at some point in time adds a sense of urgency when considering the remaining independent variables of financial flows, institutional mechanisms and information. To put it bluntly, because oil and gas will eventually "run out" there is an additional strategic importance attached the knowledge associated with the remaining reserves, to what extent hydrocarbons' value can be maximised, the mechanisms used to distribute the benefits and costs and most importantly, who benefits and who pays for energy.

Institutions: If we approach the concept of expectations from the institutional perspective, it is apparent that federal and regional authorities have dissimilar plans for the region's resources. Moscow's priority in terms of its energy sector is political as well as socio-economic development of the Federation on the whole. Proceeds derived from regionally located resources are maximised as budgetary flows which contribute to the federal budgetary coffers. Employment of the funds is at the discretion of the federal government; whether they are expenditures for national defence, discretionary transfers to the poorest federal units or federal grants for housing education or

⁴⁰ For 2008 it was expected that Tomsk would consume 8.5b kw/h while producing only 4,08b kw/h (approximately 48 percent of the total). See Atomic Plans (2008).

⁴¹ Already in 2003, plans were set for propane-butane plant in Tomsk Oblast which would produce 72t of liquid hydrocarbons. The plant's expected production would have covered the Oblast's annual demand and dropped prices for heating isolated localities outside of the capital, Tomsk by half. See Liquefied Gas (2003).

⁴² This investment programme is tied into the Federal Strategy to build up to 11 new nuclear power plants by 2020. As part of the federal plan, Tomsk would receive one new plant in addition to the existing facilities already in the region which were once part of the country's military industrial complex. See Atomic Plans (2007) ; Peaceful Severesk (2006).

healthcare based on competitive application from the regions.

From the regional perspective, the spill-over costs of federal projects such as national defence are palatable because the costs and benefits are arguably spread among all the constituent units more or less equally. However, when the discussion switches to re-distribution of financial flows to poorer regions that do not contribute in any measurable manner to the political or socio-economic advancement of the federation beyond the vagaries of stabilisation, then accusations of free riding on the natural resources of other units begin to be heard on the part of resource producing regions.

Finances: The preference dissonance also extends to the financial sphere, too. The case study has demonstrated in a convincing manner that commodities such as oil and gas have a differing utilitarian profiles according to the perspective adopted. Disregarding the obvious linkages to the institutional perspective outlined above, government, regardless of its place in the institutional hierarchy, is principally involved with establishing the conditions for effective distribution of public services and the collection of payment for such services. For the regional administration, besides taxation, hydrocarbons have a derivative socio-economic utility in which budgetary flows are translated into sources of heating, electricity, and secondary derivatives affecting the quality of life including employment, healthcare, public transportation, education, and sports.

On the other hand, companies are primarily profit driven. They value the commodities in their grasps according to the amount of profit derived from the exploitation of those various goods. Conversely, businesses perceive social utility as subtracting from their financial bottom lines. This profit versus social benefit fault-line is intensified when crude oil or natural gas is used for basic heat and electricity generation, robbing companies of added economic value from the production of derivatives such as methanol, lubricants, or plastics which are highly valued in other industrial sectors.

Information: Accurately assessing the structural conditions along with the opportunities and constraints structures pose to particular strategies may inevitably contribute to the ultimate success of a specific policy. However, no matter how well a particular policy is suited to the policy environment, judging the human factor as it relates to expectations is problematic. No actor possesses perfect information. As was demonstrated earlier, questions concerning the sustainability of Tomsk's resource base are prevalent both in the business community and with the administration as well. Another indeterminable factor is the reaction of any actor to changes to the structure of the policy environment brought about by actor agency, unexpected changes in the structures themselves or the unintended consequences of strategic choices.

The Resulting Contingency: Judging by the nature of the structures above, it should be possible to judge the direction in which the region's energy strategy is heading if it is assumed that the administration desires to maximise the benefits produced by the region's own resources. First and foremost for the Oblast is the breaking of the region's dependence on its natural resources for socio-economic development.

From the evidence presented, the process of diversifying the economy entirely away from oil and gas production may never fully be implemented. Judging by the physical and informational

structures in place at this time, there are partial steps the administration can take to aid in this process. The region has the technical expertise to move away from oil production and subsequently move into the engineering end of the business. It may also chose to rely upon its petrochemical assets (refining in particular) to produce derivatives such as gasoline and methane as an increasingly important regional cog in the value-added sector of the energy production chain.

In terms of production, the regional leadership has made a conscious effort to diversify upstream production by allowing small companies to explore for and invest in the next set of greenfield projects. Although this could be seen as a major gamble taking into consideration the way in which the federal authorities and domestic energy majors have treated competitors in the past, this diversification strategy may pay off in terms of reducing regional economic dependence on Rosneft for tax revenue. It may also provide impetus for further regionally-based development of the upstream away from old fields, thus guaranteeing a stable base for economic growth for years to come.

The second step is to determine just how the expected rise in benefits accrued from the regions resources will be spent. Here there are some institutional pitfalls that need to be avoided. The Oblast administration has talked quite a bit about improving the overall environment for businesses in order to spur investment away from the resource extraction sector to a diversified value added, knowledge based economy. Increased budgetary revenues do not instantly guarantee that bureaucrats or businesses will necessarily comply with the long term vision of the regional executive and opt for short term rent extraction strategies.

The spreading of costs and benefits to all stockholders, the energy industry, the bureaucratic establishment, small to medium enterprises and the federal government itself need to be involved in planning the long term socio-economic development of the region beyond the formation of a general strategic development policy. Regulatory frameworks that form the basis for interest competition are already in place in Tomsk and have facilitated the flow of ideas among various groups of interests. With the onset of increased revenue comes the need for increased oversight and long term planning that will support existing institutional mechanisms and foster flexibility in investment policy, deal with increased expectations on the part of the regional population, while taking into account the basic cost and benefits of all actors.

One mechanism that has been discussed already is the establishment of a stabilisation fund which would augment direct investment in the region when necessary. Another concept that would be feasible is the creation of a development corporation to focus on the investment needs of the Oblast in line with the strategic development plan. Such a mechanism would limit rent extraction form the resource sector by tying participants' profit to the success of the organisation's business and socio-economic activities.

Finally, society on the whole cannot be disenfranchised by the development process. Housing, healthcare, quality education, and employment are key issues that need to be dealt with continuously despite their costs. A positive sign has been the acknowledgement of their importance by the regional and federal authorities as well as the business community. Existing models such as the competitive grants programme or budgetary transfers sponsored by the federal government are

geared towards redistributing assets for public service investment for the neediest or in some cases the most realisable projects. However, these projects are blunt instruments that provide one-off benefits for a limited number of citizens. The optimum model would see continuous funding based on regional sources directed by the regional elite under the auspices of the federal authorities. However, for such a balance to be struck, conditions need to be in place for all actors to reach such a consensus.

Appendix I Legislation in Tomsk Oblast Gas and Oil Sector 1995-2001

1995	1996	1997	1998	1999	2000	2001
Decision N 123 Tomsk Oblast Duma 25 March 1995 Social-economic development of oil and gas producing regions of Tomsk Oblast		Resolution N49 17 March 1997 Creation and Development of Production of Competitive Oil & Gas sector Equipment	Resolution N49 6 Feb 1998 Creation of the working committee on relations among YUKOS, VNK and Tomsk Oblast Administration	Resolution N380-p 13 Sept 1999 Forms of Support for construction of Strezhevskogo Oil Refinery	Order N82-p 10 March 2000 1st Regional Conference "Oil & Gas 2000"	Order N4-p 12 Jan 2001 2 nd Regional Conference "Oil & Gas 2001"
Resolution N255 20 Sept. 1995 Realisation of Tomsk Oblast's Gasification Programme	Resolution N329 4 Dec 1996 Appropriation of salaries for expertise concerning companies in the oil and gas sector	Resolution N362 17 th Dec 1997 Establishment of public company Mezhhrengiongaz Trading House	Resolution N237 29 June 1998 Creation of Joint Stock Company Sibgazifikatsii		Resolution N120 31 March 2000 Oblast Budget Fuel Subsidies to regional Institutions & Firms	Resolution N22 23 Jan 2001 Emergency measures for Oil related Catastrophes
					Decision N 568 Tomsk Oblast Duma 6 June 2000 Oblast Guarantee of Repayment of Federal Credits to Oblast Firms 1992-1994	
					Resolution N 283 21 June 2000 Reactivation of inactive wells in Tomsk Oblast	

Appendix II Legislation in Tomsk Oblast Gas and Oil Sector 2002-2008

2002	2003	2004	2005	2006	2007	2008
Directive N74r 11 March 2002 3 rd Regional Congress "Oil & Gas" Automation of Production Processes	Resolution N4a 10 Feb 2003 Payments for Use of Regional Natural Resource	Directive N507r 13 Aug 2004 Amendments to the Development of the Oil and Gas Industry 2001-2005 to 2030	Resolution N50 4 April 2005 Administrative Expenditures	Resolution N7 20 Jan. 2006 Amendments to Oblast Fuel Subsidy Resolution N120 (2000)	Resolution N18 16 Feb 2007 Gasification of Tomsk Oblast	Resolution N37ra 25 June 2008 11 th International Congress "Energy Conservation" & Exhibition "Gasification 2008"
Directive N624r 29 Dec. 2002 Working Group on Actors in Oil Sector	Law N 791 State Duma Tomsk Oblast 28 Aug. 2003 Exploitation of Natural Resources in Tomsk Oblast	Law N 1380 State Duma Tomsk Oblast 26.08.2004 Assignment of Associated Mineral Rights	Resolution N58a 30 May 2005 Licensing Rights	Resolution N2a 23 Jan 2006 Confirmation of Licensing Agreement Legislation	Directive N122 r 12 March 2007 Amendments to Regional Energy Strategy	
		Directive N26r 7 Oct. 2004 Working Group on Model Hydrocarbon Companies	Directive N 583r 5 Oct. 2005 Siberian Natural Resources / Energy Complex Forum	Resolution N2783 GDTO 26 Jan 2006 Request for assistance in regional gas sector (Miller / Fradkov visit)	Directive N266r 28 April 2007 3 rd Siberian Forum "Suppliers & Consumers in the Energy Complex"	
		Directive N639r 13 Oct 2004 Regional Conference "Problems Perspectives in NR Sector"	Resolution N130r 13 Oct. 2005 Amendment to Oblast fuel Subsidy Res N 120 2000	Resolution N36 6 April 2006 Amendments to Oblast's emergency response programme Resolution N. 22 2001	Orders N73/563 & N73/564 17 Dec 2007 Liquefied Gas Pricing "Gaztorgresurs" "Asinomezhraigaz"	
		Resolution N75a 20 Oct 2004 Payments for Use of Natural Resources	Identification N63 Federal Anti-monopoly Commission 22 Nov. 2005 Anti-monopoly investigation Aleksandrovo Region	Resolution N170r 6 April 2006 16 th Int. Congress "New High Tech in the Oil & Gas Sector"	Orders N 73/565 & N. 73/566 17 Dec 2007 Liquefied Gas Pricing "NSRK Tomsk" "BMGK Myldzhino"	
		Directive N761r 2 Dec. 2004 Competition Commission for Gasification project of Tomsk Oblast	Resolution N129a 16 Dec. 2005 State Industrial Audit	Resolution N204 7 June 2006 Compensation for energy savings	Law N 121-O3 6 July 2007 Bases for Energy Conservation in Tomsk Oblast	

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