



REUTERS  
INSTITUTE for the  
STUDY of  
JOURNALISM

**Reuters Institute Fellowship Paper  
University of Oxford**

# Business lobbying and government relations in Russia: The need for new principles

by Dmitry Denisov

Michaelmas Term 2010

Sponsor: Wincott Foundation

## **Table of contents**

### **1. Introduction – Lobbying and Lobbyists**

- Lobbying: the term, its origin, and the controversy

### **2. Review of twenty years of Government Relations in Russia**

- Business lobbying and the executive branch
- Business lobbying in the State Duma

### **3. Business lobbying in Russia in action**

- Getting rid of smaller competitors / Case #1: More regulations to win
- Increasing volume of market / Case #2: Lobbying brings more business
- Fighting lobbyists of other industries / Case #3: Be ready to lobby or lose

### **4. Regulation and self-regulation of lobbying activities: two approaches**

- Lobbying in the U.K.
- Lobbying in the U.S.A.

### **5. Conclusion.**

- What model is more appropriate for Russia?

## **Acknowledgements**

## **Bibliography**

## 1. Introduction

### Lobbying: the term, its origin, and the controversy

Politics and economics affect each other in a complex and sometimes inexplicable way. Which one of the two dominates in this uneasy relationship? This has been a big issue for discussion in political economy at least since the mid-19th century. The Left school of thought has always tended to argue that politics is merely an extension of economics, with some New Left thinkers claiming that the private sector's interests enjoy a privileged place in political decision-making, given the importance of the capitalist economic system (Miliband, 1969). Other political economists would strongly speak out for the pro-active position of governments in economic policy and for their ability to regulate the business cycle with fiscal and monetary measures in order to mitigate or even avoid the adverse effects of economic depressions and recessions (Keynes, 1926).

No matter how business and government arrange things between themselves, the nature of their relationship is extremely important, according to Richard Lehne (2006):

“The ways countries structure the relationships between politics and economics are so fundamental to the counties’ identities that they often become the basis for classifying total societies” (p. 26).

In this paper I focus on a much narrower issue: how economic actors, which represent the private sector, exert their influence on the formation and implementation of governmental and legislative policy – with the particular emphasis on Russia. Such activity is termed as *lobbying* or *government relations* (often shortened to *GR*), and I use these terms interchangeably throughout the paper.

The word ‘lobbying’ derives from ‘lobby’ and historically referred to areas adjacent to government and legislative headquarters where petitioners and representatives of different interest groups congregated in an attempt to approach and influence decision-makers. It is widely believed that the term was coined by the U.S. president Ulysses S. Grant (1869-1877), who had a habit of leaving the non-smoking White House during his working hours and walk to the Willard hotel in the nearby to enjoy a cigar and a glass of brandy in its lobby. That was the place where he was regularly approached by those seeking favours. As time passed by, the crowd of seekers became so substantial that Grant finally had to stop his visits to Willard, complaining that he had been “overlobbied” there. Editors of the *Oxford English Dictionary*, however, argue that the term was in use well before Mr. Grant and that its early appearance could be found back in 1640, when it referred to the gatherings of MPs and peers in the lobbies of Houses of Parliament before and after debates (National Public Radio, Discussion on origins of the term lobbyist, 2006).

Before proceeding any further, four questions need to be answered.

*Who are business lobbyists?* The structure of actors in business lobbying is quite universal and does not vary from country to country (adapted from Hrebenar and Bryson, 2009):

- for-profit organisations (‘guns for hire’, professional providers of lobbying services);
- in-house lobbyists of companies (known as GR managers);

- non-profit organisations ('umbrella' trade associations, industry associations, specialised associations);
- think tanks as institutions that conduct researches intended to affect government decisions (often affiliated with one of the above).

A combination of different actors pursuing similar goal is called 'an interest group'. Actors often form an ad hoc coalition to deal with a specific issue.

*Whom do lobbyists lobby?* Executive and legislative branches of authority at all levels: local, regional, national, and international.

*How do lobbyists lobby?* Classic lobbying (also known as direct lobbying) implies delivering data or opinions to a government decision maker; this process involves personal, face-to-face communication. One of the essential skills for business lobbyists is the ability to present the interest of their company or client in the context of public interests. Why should decision makers listen? Nickolas Lansman, managing director of London-based *Political Intelligence Group*, whom I interviewed for this paper, explained why:

"Most parliamentarians and officials really welcome contacts with individuals, charities and businesses, because they need to know what is going on in the real world, and they do not want to make a decision or have a debate on a law when they are not well informed. They want to know all sides of the argument before they make their minds up. And that is when professional lobbyists come in, because we know how to present information – honest, transparent, not made-up, using good statistics that a parliamentarian would want to use. In fact, we have never had someone who says: I don't want to listen to your view."

Antony Nownes (2006) also states that lobbying is basically about the 'sale' of knowledge:

"Many of the lobbying techniques entail the provision of information... Lobbyists' stock in trade is information used in attempt to convince either government officials or the public that he or she is right" (p. 26).

However, direct lobbying is not the only tool in the hands of lobbyists. And that is when another question becomes important:

*What is the place of lobbying within the structure of external communications of a company?* GR is just one of five communication channels used by business enterprises, as indicated in the Table 1 below.

Table 1. How companies communicate

Communication tools	Public relations (PR)	Government relations (GR)	Marketing	Investor relations (IR)	Internal relations (HR)
Target	Public opinion	Decision makers	Consumers	Shareholders, equity markets (for publicly traded companies)	Employees
Means	Mass media; events; grassroots campaigns, etc.	Direct lobbying; monitoring government activities ("early warning system")	Advertising	Disclosure of important information	Corporate media; development of corporate culture and team spirit, etc.

However, GR departments of corporations do not limit themselves to direct lobbying as the only means to affect decision makers. These days GR has become more elaborate and quite often uses tools that had been previously considered as the main instruments of public relations and marketing. It is small wonder that these days big lobbying agencies often offer GR as part of a 'communication services package' to their clients.

Business lobbying has always been perceived as a very controversial activity, because companies and private sector's interest groups can easily depart from the public interest in their pursuit of benefits and economic advantages from the government. They are capable of applying significant lobbying pressure on all branches of authority, which sometimes results in the application of public resources to conflicting causes. Charles Mack (1997) gives a good example of such inconsistency, taken from the USA:

"The federal government famously spends considerable sums to discourage smoking while simultaneously paying subsidies to tobacco farmers" (p. 13).

Apart from the above, lobbying is considered to be a potentially problematic zone, since those who govern and those who are governed are always tempted to cross the line between lobbying and corruption, which implies bribes and kick-backs to decision-makers to ensure their favouritism and patronage. In many countries it comes to the point when even the word 'lobbying' becomes compromised, so lobbyists themselves prefer to describe their activity through such euphemisms as 'business interest representation', 'political consultancy', 'legislative communications', 'government affairs', 'policy marketing' or – in a more general sense – 'public affairs'.

In order to combat the 'dark side' of government relations, many nations have introduced mechanisms of civilized lobbying - either through statutory acts or systems of self-regulation for lobbyists. Russia's economy is still to a great extent a transitional one, and so is its legislation. Until now Russia has not adopted any legal regulation or binding code of conduct for those who engage in lobbying and GR activities. The problem is that whenever there is no proper regulation of lobbying and GR activities on many occasions they become hardly distinguishable from corruption. That brings a lot of distortions into the relationship between business and government, especially bearing in mind that the role of state in the country's economy remains very significant – to the extent when no higher-than-medium business enterprise can feel secure enough for its assets without having a heavyweight 'patron' in the executive or legislative branches of authority.

Russian lobbyist and political advisor Igor Mintusov, CEO of *Nikkolo M* company, whom I interviewed two years ago, assessed the state of lobbying in Russia quite clearly and frankly (Denisov, D. 2008):

"Unfortunately, in order to be an effective lobbyist in this country, one ought to have good skills in corrupting" (p. 47).

Within the framework of this research, I find it very important to undertake a short comparative study of mechanisms that are used for regulation of lobbying in different countries to ensure transparency and accountability of the process of business/government interaction. This will be very helpful in finding an answer to the key question of my research: what model would be most suitable for Russia?

## **2. Review of twenty years of GR in Russia**

*Business lobbying and the executive branch.* The current state lobbying in Russia cannot be properly understood without the wider historical context of the post-Soviet development of private ownership, parliamentarianism and politics in general. In twenty years Russia has made a remarkable transition from Soviet planned economy to a capitalist one, though negative side effects of such a rapid move for society were enormous and to some extent inevitable.

Business-wise, Russia's legislation has always been well behind the actual needs and demands of economic actors throughout these years, so business entities and representatives of government have got used to inventing their own practices and ways to interact in wide array of 'grey' and 'dark' zones.

That made GR and the ability to deal with officials at all levels the most important skill for any successful businessman to gain assets and competitive advantages. There is a wide-known saying, which was allegedly coined by Russian multi-billionaire Oleg Deripaska, CEO of Basic Element and United Company RUSAL: "Successful business in our country is comprised of 40% GR, 40% PR, and only 20% the business itself." Government and political groups of interests within the executive and legislative branches of authority have always been a source of not only benefits and advantages, but also threats for any business. GR-mistakes can cost businessmen a lot and be very destructive for their business. The best proof of this are the GR-disasters of such billionaires as Boris Berezovsky, Vladimir Gusinsky, Mikhail Gutseriev, Mikhail Khodorkovsky, who had to face an unpleasant choice: either to escape from the country in self-imposed exile or to end up in prison. The ups and downs in their careers are visible evidence that dealings in 'grey and dark zones' in the manner of 'wild GR' make business extremely vulnerable to political changeability.

A brief historical sketch of how government and business have been getting along in recent years would be more than appropriate for this paper. In the case of post-Soviet Russia the question "What comes first – politics or business?" has a definite answer. It was politics that brought into being private business and private ownership.

In December 1991 Boris Yeltsin became the president of de jure independent Russian Federation. The country was in economic depression, so there was a great need for determined changes and reforms. Yeltsin had quite limited space for political maneuver since the Parliament (named at the time the Supreme Soviet) was largely dominated by Communist supporters (nearly 50%), and he badly needed to use the five remaining years of his presidency to create a new electoral basis for himself in order to get re-elected in 1996. Carrying out reforms (there were no illusions that they would temporarily only deepen social decay) and simultaneously winning hearts and minds of electorate for the future were quite difficult and conflicting tasks.

Yeltsin's political choice was to go ahead with the privatisation of state property as soon as possible and at any social cost in order to create a new class of owners and to make reforms irrevocable. He appointed to the Cabinet of Ministers the liberal economist Yegor Gaidar to do the job, who later became acting Prime Minister for six months (June – December of 1992). Gaidar and his ministers were later called 'kamikaze-

government', because they were the ones to do all the 'dirty work', which involved shock therapy and privatization. Until now Gaidar (who died in 2009) is perceived as the most hated politician of the post-Soviet era by the majority of population, whereas others call him 'the father of Russia's market economy'.

The first stage of privatization, launched by Gaidar's government, lasted for two years (1992-1994) and was called 'voucher privatisation'. The mechanism was quite simple. The assets of state-owned enterprises were valued at 1.4 trillion rubles. The government issued privatization vouchers totaling this amount, distributed them among people and announced that voucher holders were able to exchange them for shares of enterprises. The huge disadvantage of the scheme was that there was no proper corporate legislation ensuring the protection of minor stakeholders' rights and due corporate governance guidelines at the moment, to say nothing of sufficient 'financial literacy' of the majority of population.

Anatoly Chubais, the ministry in charge of privatisation in the Gaidar cabinet, made a clear and outspoken explanation of the political motifs of privatisation in an interview with the *Financial Times* (Ostrovsky, 2004):

"We were perfectly aware that we were creating a new class of owners. The privatisation was not a question of ideology or some abstract values; it was a question of a real, political daily struggle. The red directors (former Soviet industrial elite) had enormous power - political, administrative, financial. They were invariably linked to the Communist Party. We had to displace them and we knew we did not have much time. The count was on days, not months. We did not have a choice between an 'honest' privatisation and a 'dishonest' one, because an honest privatisation means clear rules imposed by a strong state that can enforce its laws. In the early 1990s, we had no state and no law enforcement. The country's security service and police were on the other side of the barricades. They were taught the Soviet criminal code, which implied three to five years in prison for private business activity. Our choice was between bandit communism or bandit capitalism."

As the result, Russia underwent what could be called the fastest and the biggest by volume sale of state assets – maybe in entire history. In the five subsequent years almost 75% of the economy became private.

Yeltsin's plan worked out only partially: the hasty privatization did not produce a massive stratum of private owners – it produced only a few, and an extremely wealthy few. In 1995, as Yeltsin's rating in public opinion palls fell nearly to zero, his government went even further with its privatisation plans. The second stage was called 'cash privatisation' (1994-1998), and the very core of it was a "loans-for-shares" scheme, launched in 1995. According to the scheme, the government borrowed money, which it needed desperately for its operational expenses at the time, from private financial groups and secured repayment of the loans with collaterals of substantial packages of stock shares in some state-owned enterprises in the oil, metallurgy and telecommunication sectors. It was part of the lending agreements that if the Yeltsin government did not repay the loans by the end of 1996, the lenders had the right to acquire full ownership of assets. There were two factors that made the scheme extremely controversial and open to corruption. The market value of collaterals, provided by the government, exceeded the amount of loans by many times (up to 25 times, as some of economists now claim). The lenders were chosen in a series of auctions, which were staged in such a way that only politically well-connected and

wealthy financial groups and entrepreneurs could manage to participate. Presumably, as a part of pay-off for getting the access to that sinecure, they undertook obligations to sponsor Yeltsin's campaign in the forthcoming 1996 presidential elections.

Yeltsin won the elections by a very small margin of votes from the Communist candidate. He never repaid the loans and the lenders were rewarded by keeping the generous collaterals. For many Russian oligarchs that was the first step to the Forbes billionaires' list. Technically speaking, the "loans-for-shares" scheme turned out to become a huge exchange of state property for electoral support and the biggest undercover collective deal between big business and politicians.

After the re-election of Yeltsin, newly-born Russian oligarchs started to transform their wealth into political power. A new system of political authority in Russia, that appeared around the ailing president Boris Yeltsin was nicknamed by the mass media as 'semibankirschina' or the 'reign of seven bankers'. One of the seven, Boris Berezovsky, when interviewed by the *Financial Times* in 1996, referred to the group as those who controlled together almost half of the Russian economy and influenced most of political decisions in the country. Some of them actually took on jobs later on as state officials. In 1999-2000 Berezovsky himself held the office of Executive Secretary of the Commonwealth of Independent States (CIS) and was elected a member of the State Duma. Another oligarch Vladimir Potanin acted in 1996-1997 as the first deputy prime-minister. Nevertheless, it was two-way traffic: state officials were also getting involved in business more and more. By holding insider positions in the executive branch, they could win government contracts, licenses and preferences for enterprises affiliated with them to earn their fortunes.

The weird mix of business, politics and corruption in the executive branch of authority could not ensure stability. In the late 1990s Russia experienced a series of devastating conflicts between different groups of oligarchs who used all their might to fight for their economic interests against rival groups and sometimes even against government and the president. These conflicts became known to the public through 'media wars': by that time oligarch groups had established their firm control on mass media and used them to expose their opponents and publish compromising documents.

That was the state of affairs, which new political leader Vladimir Putin had to deal with, when President Boris Yeltsin stepped down and chose him as his successor in December 1999. One of Putin's primary goals was what he later articulated as 'the detachment of oligarchs from political authority', which he successfully implemented during his first term in the presidential office. By 2003 the list of one-time mighty seven bankers looked as follows: two in exile, two out of business, one in jail, two were still in Russia and in the World's Billionaires list of Forbes, only two remained – Mikhail Fridman (#42, US\$12.7bn) and Vladimir Potanin (#61, US\$10.3bn). Having been the head of the FSB (one of successor services to the KGB) in 1998-1999, Vladimir Putin had enough data on the past of oligarchs to make them to comply with new rules. It did not mean that the relationship between big business and executive branch became healthier and more transparent. It only constituted a swing of the pendulum, which brought the dominance of politics over business and downgraded oligarchs to the position of being the 'minor' partners of politicians.

Russian oligarchs who came to prominence in the Putin's reign already had a different turn of mind. Oleg Deripaska, who made it to the top of Forbes list and became the ninth richest man in the world in 2008 (US\$28bn), sounded as if he were an extremely



loyal and obedient person, while speaking to the *Financial Times* about his assets (Belton, 2007):

"If the state says we need to give it up, we'll give it up. I don't separate myself from the state. I have no other interests... I was lucky. Just consider that everything fell from the sky."

Treating big business in an unceremonious and imperious way became normal for top Russian politicians. The recent televised commentary of Vladimir Putin, which followed after Russia had won its bid to host the 2018 World Cup, was quite symbolic. "I don't rule out that Mr. Abramovich may take part in one of these (construction) projects, let him open his wallet a little", Putin said. "It's no big deal - he won't feel the pinch, he has plenty of money." Roman Abramovich hastily confirmed next day that he was 'more than willing' to invest over £500 million to build a new stadium in the outskirts of Moscow.

What is even worse in this peculiar exchange between Putin and Abramovich is that it is actually adopted as a general pattern of relationship with business by lower level state officials at all levels (regional and local), who also tend to speak to businessmen by way of directives. Pavel Tolstykh, Head of the Center for Government Relations Studies and Associate Professor at Moscow-based High School of Economics, explains (Vetvinsky, 2007):

"Business is no longer a subject of politics enjoying full rights as it used to be ten years ago. People are afraid to lose their assets and freedom. We have witnessed enough cases like that recently. I doubt there is a chance for opposition attitudes to be expressed amidst businessmen."

Unfortunately, such a relationship between politics and big business lacks transparency and provides very little material for research as most of decisions are made between political clans within the executive branch.

*Business lobbying and the State Duma.* The legislative branch of authority provides a researcher much more opportunities to monitor lobbying activities due to the very nature of legislative process:

- There is more transparency and accountability in the legislative process; drafts of laws and parliament debates during hearings are open to the public and mass media scrutiny.
- As the legislative process is more about 'general business climate', and not about favours and preferences for individual firms, there are much more actors involved and they tend to address public opinion and articulate their cause publicly more often.

Since 1995 there have been three unsuccessful attempts at adopting a statutory act regulating lobbying activities in the first (1993-1995), second (1995-1999) and third (1999-2003) State Dumas. All three drafts received negative reviews from the president's administration and government at a very early stage, which described such initiatives as 'untimely and premature'. They did not succeed in making it beyond the first hearings in the legislative process. There simply seemed to be not much interest among major political stakeholders to lobby for such a lobbying act. A few years ago I had the chance to interview Mr. Vladimir Lepiokhin, who was a MP in the second State Duma and happened to be the author of the first draft. He very much regretted that the

law had not been adopted during “the romantic times of the mid 1990s.” “Since then”, he said, “our government and the Duma have been privatized by lobbyists and different groups of influence, and they simply dislike the idea of any provisions that regulate their activity” (Denisov, D. 2008).

The only existing mechanism to enforce ‘civilized’ lobbying in the Duma for the time being is through the code of ethics and the Parliamentary Commission on mandate issues and MPs’ ethics. However, there were only a few examples in the course of fifteen years of the Duma’s existence when the commission got involved and examined cases of suspected corruption among members of parliament. There have been no cases so far when a MP was deprived of his or her status on the ground of allegations of corruption.

However, the above does not necessarily mean that the State Duma is a place free of corruption, conflicts of interests and unethical conduct. On the contrary, it witnessed a whole array of them, especially during the second and third Dumas. A complete typology of improper lobbying activities in the Parliament could be the following: patronization of business, cash for requests, and even cash for votes. Especially some members of the second and the third Dumas were notorious for exchanging their status and authority for cash and other benefits from business. They did not even try to conceal their interest and affiliation with particular businesses when they made decisions. In some instances their activity took ridiculous forms. A few years ago it was not a rare practice for some Parliament members to open their public reception offices within the premises of their patronized business. According to the law, Members’ of Parliament offices (they are eligible to have as many of them as they like) are immune and cannot be searched by police investigators. In the early 2000s, some private enterprises presumably paid as much as US\$5,000 – 10,000 per month to a Member of Parliament for a privilege to ‘host’ one of his or her offices and become ‘immunized’ this way. Viktor Cherepkov, a notorious member of the third and fourth Dumas, had nearly a dozen of his reception offices across his constituency – some inside very inappropriate buildings like warehouses and grocery shops. In 2007 the public scandal forced him to close the offices down and to put all the blame for misconduct on his own aides (Kriazhev, 2007).

Another example of ‘commercial services’ provided to business by some of parliamentarians is an MP’s official request. According to the Federal Law on the Status of a Member of Parliament, government bodies, once they are in receipt of an official request from an MP, should treat it as a priority matter, take appropriate actions and report back to them. Moreover, an MP has the right to follow up closely what measures are taken on his or her request, make inquiries of officials in charge, attend relevant meetings, etc. Therefore, MPs can be used by business as a tool to apply pressure on government officials and bodies. The famous YUKOS case started (or was staged to start) in 2003 from an official request of one of MPs to the General prosecutor’s office asking to investigate the legality of the privatization of the *Appatit* company.

Adopting the state budget for the forthcoming year used to be another big field for bargaining with business and getting illegal benefits – not for individual MPs, but for parliamentary factions and influential committees. Various business interest groups would generously pay corruption fees to big shots in the Parliament in order to increase subsidies or expenditures related to their respective industries. These pay-offs were done either in cash or in the form of political campaign support.

The Russian edition of *Newsweek* magazine published a rough ‘price-list’ of the parliament’s ‘lobbyists’ citing some anonymous insiders in the Duma (Savkin, 2009):

- official request – US\$5,000;

- phone call or meeting with an official to outline interests or position of 'client' – US\$3,000-4,000;
- vote – US\$30,000;
- a legislative initiative to amend a law – US\$50,000, etc.

The corruption scheme, however, started to evolve during the fourth Duma (2003-2007), and completely changed in the fifth (2007 – present). That happened largely due to ambiguous reforms of the parliamentary system undertaken by Vladimir Putin during his two presidential terms, i.e.:

- Pro-presidential quasi-party *United Russia* was formed in 2001 through a merger of the *Unity* and *Fatherland – All Russia* parties; being a right-of-centre party supported by then-president Putin, *United Russia* very quickly became the heavyweight of Russian politics;
- since 2005, only parties that receive more than 7% of votes during elections are eligible to take seats in the State Duma; that threshold left out of the Parliament a number of minor parties which were perceived as trouble-makers for the Kremlin;
- since 2007 a new electoral system was introduced that cancelled single-mandate constituencies, so all Members of Parliament are elected according to a proportionate model on the basis of party lists of candidates; that prevents the election to the Duma of 'accidental' (for the Kremlin) members of Parliament.

How have all these changes affected the level of corruption and 'shadow' lobbying in the parliament? It seems not much in general, though they created the State Duma which is more controllable and easier for the executive power to deal with. At the same time some outrageous 'lobbying' activities such as cash for requests or votes seemed to fade away and become marginal.

The break-up of the present fifth State Duma appears to be very consolidated: *United Russia* - 70%, *Communist Party* – 12.7%, *Liberal Democratic Party* 8.9%, *Just Russia* – 8.4%.

Pavel Tolstykh, the head of the Center for Government Relations Studies, explained during an interview why the domination of the *United Russia* party in the State Duma has made such a significant difference:

“On one hand, some candidates had to pay from seven to eight million in US dollars for a pass-through position in party lists for the Parliamentary elections. It is hardly likely that their basic motif to run for the State Duma had been to get a return on their 'investment' in the form of five-thousand fees for doing favors. That basically means that the majority of members of the Parliament ran for the Duma in order to use it as a platform to increase their social status and develop on this basis their affiliated business groups. On the other hand, domination of *United Russia* decreased inter-fractional competition in the Parliament and the lobbying potential of smaller fractions. Thus fewer members of the Parliament have real influence on the legislative decision making.”

In the previous Dumas votes of minor factions could matter a lot in the situation when the rest of MPs split equally over some issue, so that is why they were able to exercise their lobbying potential. The overwhelming domination of the pro-presidential faction downgraded their influence nearly to zero. Some Russian political experts even refer to the fifth State Duma as the legislative body which simply stamps its approval on whatever comes in from the Kremlin. The main venue for political bargaining, barter and exchanges inside the Duma these days is the *United Russia's* faction as the major parliamentary stakeholder. However, on issues which are not considered to be

essential for *United Russia* or the Kremlin, there can be some space for quite vibrant and fierce lobbying and anti-lobbying campaigns as it will be shown in the next chapter.

### **3. Cases: Business lobbying in Russia in action**

Since the rules and regulations are not properly established yet, business lobbying in Russia might often appear to an outside observer as a kind of a 'black box', which delivers once in a while unexpected results in the form of some government order or draft of a law. However, if you are very much aware of the general set-up between main market players, the intentions of the key business interest groups, and the possible affiliation of parliamentarians and other state officials, you can make a firm judgment about the algorithms of the 'black box' of Russian business lobbying.

There are a limited number of motives for the market players to initiate or get involved in a lobbying campaign, and the best idea would be to illustrate them by several actual cases that took place in the recent few years.

*Getting rid of smaller competitors.* Russian business is quite young, since the first elements of free entrepreneurship were introduced in the country (then USSR) as early as 1988<sup>1</sup>. Since then, almost each and every market segment became mature enough to form groups of different market actors that tend to pursue their 'special' interests rather than common interests of their industry in general. In many occasions, different groups of interests within the same industry even become quite hostile to each other.

The first split usually occurs between major players and their smaller competitors. Suddenly it becomes clear that leaders of a segment do not mind – and in fact even *insist* on strengthening government regulations for their industry and on raising administrative barriers. They hope to clear the competitive area of the annoying "small fry", which they believe would not survive the harder rules of the game. In most cases, such aspirations are backed up by a vivid response from the top Russian authorities, for whom any integration and consolidation of the economy in recent years become almost an *idée fixe* – in line with Vladimir Putin's statement made at the beginning of his presidency that Russia ought to build 'national champions' in most economic sectors.

Recent developments in the Russian travel industry represent a very good example of vibrant lobbying and counter-lobbying campaigns undertaken by market actors.

<b>Case #1. More regulations to win</b>
Aim of lobbying campaign: Adoption of amendments to the Federal Law "On Principles of Business Activity in the Tourist Sector of the Russian Federation" (#132, in act since 03.12.1996). The amendments were intended to introduce a new mechanism of mandatory liability insurance for Russian outgoing tour operators.
<b>Lobbyists:</b> <ul style="list-style-type: none"><li>• Vladimir Strzhalkovsky, the head of Federal Tourism Agency;</li><li>• Association of Tour Operators of Russia, which represented interests of major companies in travel industry.</li></ul>



<sup>1</sup> Law on Cooperatives in the USSR (# 8998-XI), in act since 26.05.1988.

**Arguments of lobbyists:** “We’ve got to create a mechanism of financial protection for Russian tourists abroad in case of financial insolvency or fraud on the part of their tour operator.”

**Counter-lobbyists:**

- Russian Union of Travel Industry, non-government organization;
- Regional NGOs of travel business professionals.

**Arguments of counter-lobbyists:** “Such mechanism should not pose a restriction of market competition in favor of big companies.”

At the time of the outbreak of the ‘lobbying war’ in the Russian travel industry, the market scene appeared as follows: turnover of the industry in 2007 reached almost \$10 billion; outgoing volume accounted for over 9.4 million tourists per year; the top-50 tour operators controlled just slightly over 20% of the market<sup>2</sup>. Unlike many other sectors of the economy, the Russian travel industry was dominated by a multitude of small and medium-size enterprises, often run as family businesses. That state of affairs did not please the big players.

Vladimir Strzhalkovsky, the head of Federal Tourism Agency (tourism regulatory authority), became the main driver for the lobbying campaign. Apart from the fact that he had been a top government official since 1999, there were several facts in his biography that would make him the best lobbyist to do the job. He was a long-time acquaintance of Vladimir Putin from the early 1980s, when they had been colleagues in the St. Petersburg’s KGB bureau; he was a major stakeholder of *Neva* holding, one of the biggest tour operators in Russia, which he had founded in 1991.

In June 2007, quite unexpectedly for the travel industry, the Federal Tourism Agency came up with draft amendments to the Federal Law “On Principles of Business Activity in the Tourist Sector of the Russian Federation.” The amendments provided that no tour operator in Russia should run outgoing business without being covered by either liability insurance or bank guarantees totaling up to 100 million rubles. That amount was intended to cover tour operator’s financial obligations to customers should it go bankrupt. Having presented the document at a press-conference, Vladimir Strzhalkovsky pointed out that he would welcome public discussion, though it should not take long as the amendments were scheduled to be sent to the Parliament for consideration in two months. Spokesmen for big travel companies hailed the initiative unanimously. However the majority of members of the Russian Union of Travel Industry (RUTI, the industry’s key non-government organization) expressed their disapproval. That was the point at which the difference of views between two groups of interests within the same industry started to crystallize: big tour operators announced that they would stop their membership of RUTI at once and founded a non-government organization of their own – the Association of Tour Operators of Russia (ATOR) – to support the legislative initiative.

By chance the next month brought events that made the position of opponents even more vulnerable: two medium-size tour operators went bankrupt and could not pay airfares and accommodation for nearly 400 Russian tourists, who were stuck abroad. Their ordeal was extensively covered by the Russian mass media for almost two weeks, until the government interfered to bring them back – mostly at the taxpayers’ expense. The lobby of big tour operators scored as many points as possible from this situation –

---

<sup>2</sup> Statistics of the Russian Union of Travel Industry ([www.rostourunion.ru/pages/rus/gor/dlya\\_profi/statistika/](http://www.rostourunion.ru/pages/rus/gor/dlya_profi/statistika/)); assessment of market share by Tourinfo agency.

taking part in TV talk-shows and lavishly commenting to the press in support of legislative changes.

So counter-lobbyists (RUTI) had to change their strategy. Instead of trying to shoot down the amendments, they had to start to bargain for better conditions. Their arguments were:

- The proposed amount of liability insurance or bank guarantee should be proportional to the volume of business of a particular company: 100 million rubles could be too little guarantee for a tour operator with a one billion ruble turnover, and too much for a company with sales less than 10 million rubles per year.
- Excessive legislative requirements could drive hundreds of small tour operators out of business and make unnecessary barriers for newcomers to enter the market, which would result in limitation of competition.

Quite naturally, they managed to find a great deal of support from the Federal Anti-Monopoly Service, which gave a negative review of the proposed amendments. In the meantime, the counter-lobbyists were very active in grass roots actions as well. During the time when the lower house of the Federal Assembly (the State Duma) was giving the bill its first reading, the members of RUTI picketed the Parliament's building. There were quite a number of protest actions initiated by local NGOs. For example, more than one hundred activists of the Altai Association of Travel Industry formed a procession and marched in the streets of the city of Gorno-Altaiisk carrying a black coffin with the slogan "The funeral of Altai travel business."

After a fierce debate, the amendments were adopted by the Parliament in the end of 2007 and took effect from June 2008. The amount of liability insurance or bank guarantee for outgoing tour operators in the final version was decreased 10 times to 10 million rubles (equivalent to £200,000). Small and medium-size companies considered that as their partial victory. Nevertheless, the number of tour operators in Russia has dropped by 20% since then.

*Increasing volume of market.* "Whenever businesses exhaust other opportunities for organic growth of their market, they tend to grow extremely active as lobbyists," says Viacheslav Tabachnikov, the managing director of Moscow office of international lobbying group *Cassidy & Associates*. And again, bigger companies are the ones to lead the game in expanding the boundaries of their industry's market.

In 2008, as a result of a relatively quick lobbying campaign, Russian car retailers successfully managed to amend taxation regulations related to sales of used cars and trade-in schemes. The campaign itself was to some extent a 'one-man show,' because most of the work was done by Sergei Petrov, member of the State Duma and also – no coincidence – founder and owner of the biggest car retail holding *ROLF*, which controlled at the time nearly 25% share of all sales by official car dealerships in Russia.

<b>Case #2. Lobbying brings more business</b>
Aim of lobbying campaign: Adoption of amendments to the 154 <sup>th</sup> Article of the Taxation Code in order to establish better conditions for official car dealers to engage into used car sales business.
Lobbyist: <ul style="list-style-type: none"><li>• Sergei Petrov, member of the State Duma.</li></ul>
Arguments of lobbyists: "We need to establish more civilized and transparent market for used cars."

It should be mentioned that by that time Russian official car dealers were not doing very well in the market of second hand cars. According to a PricewaterhouseCoopers report, the market had a turnover of more than £2bn in Russia in 2008 with a good chance to increase to £7bn within two or three years, when the cars that had been sold as new in the booming years of 2006-2007 would be available in the second-hand market. Remarkably enough, franchise and independent dealers generated only as little as 2% of sales in the used cars' segment, as most of the sales went through private party deals between individuals. The main reason for that was a provision in the national tax legislation, which could be described as a 'double' value-added tax (VAT) on used vehicles sold through dealerships. The 'first' VAT was paid by dealers when they sold a new car. After buying it back from their customer in a couple of years as a trade-in, car dealers would recondition and sell it as a used vehicle. And that was when they were bound to pay 'second' VAT on the total sales price, not just on the margin – which was the usual practice in most car retail markets. "That automatically made offers of Russian car dealers in the market less attractive than offers of individual sellers – at least by 18%, which was the VAT rate," says Alexandre Gruzdev, the director of Moscow office of *GiPA International* marketing company.

The idea of Sergei Petrov as a key lobbyist of car retailers in the State Duma was to amend the Taxation Code and to make 'second' VAT be charged on the margin, not on the total sales price of a used vehicle. Most of car retailers supported the initiative, though there was no doubt for them that Mr. Petrov himself and his company would be the main beneficiary of the amendment. Well in advance, in 2006, his *ROLF* had launched a new company as the part of his holding company to specialize in used-car sales, and by the time the lobbying campaign started the spin-off controlled 30% of dealer-generated sales of second hand cars.

The campaign went remarkably smoothly and quickly, which was quite unusual, since under normal circumstances the Taxation Code is the most difficult document to amend after the Constitution. There is no clear evidence that any specialized PR-agency was hired to provide the campaign with due back up in mass media. However, one could trace a significant increase in the number of articles which described scam and fraudulent schemes used in the 'uncivilized black market of second hand vehicles' (that's how the media defined private party car sales) during the campaign. By the end of 2008, in just one year the campaign resulted in the adoption of the amendment. The change of legislation, however, has not been able to produce significant success for car dealers in the used vehicle market so far – their share has increased only up to 4%.

*Fighting lobbyists of other industries.* There is quite a number of lobbying groups with different political weight, scales of influence on legislative and executive establishments and subsequently strategies for pursuing their goals. According to Pavel Tolstykh, the head of Russian *GR Research & Consulting Centre*, the most influential industrial lobbying groups are the ones in the oil industry, agriculture, banks, insurance and metallurgy. For decades they have learned how to get along with each other, however they often take advantage of other groups, which are inferior to them.

<b>Case #3.</b> Be ready to lobby or lose
Aim of lobbying campaign: Adoption of amendments to the Federal Law on Custom Tariff (#5003, in act since 21.05.1993). The amendments were intended to introduce significant export taxes on mineral fertilizers. The proposed formula for the tariff was similar to the one used for oil exports (i.e. calculated on the basis of world prices).



<p>Lobbyists:</p> <ul style="list-style-type: none"> <li>• Group of deputies of the State Duma, known as the ‘agricultural lobby’ (Guennady Kulik, Nadejda Azarova, etc.);</li> <li>• Alexei Gordeev, minister of agriculture;</li> <li>• Russian Agricultural Union (non-government organization)</li> </ul>
<p>Arguments of lobbyists: “Russian fertilizer producers are taking advantage of high world prices and exporting the lion’s share of their product, whereas the domestic market suffers from the deficit of fertilizers.”</p>
<p>Counter-lobbyists:</p> <ul style="list-style-type: none"> <li>• Initiative committee that later formed the Russian Association of Fertilizer Manufacturers (non-government organization);</li> <li>• Big manufacturers, playing their own game (Uralkaliy, Silvinit, Evrokhim, etc.).</li> </ul>
<p>Arguments of counter-lobbyists: “The export tax would significantly reduce profits of the industry and its ability to perform much needed technical modernization.”</p>

In July 2007, the mighty agricultural lobby launched a massive attack on the positions of Russian fertilizer producers by sending to the State Duma a draft of amendments on the export tax for fertilizers. There was a group of deputies in the lower house (known as the ‘agricultural lobby’), who were influential enough to take the draft through the legislative pipeline very quickly. In that time, nearly 90% of fertilizers produced in Russia were being exported, and the argument of lobbyists was that this drove internal prices for fertilizers up and subsequently resulted in the growth of prices for food supply. The fertilizer industry was not quite prepared to repel the blow. At the time it did not even have a non-government organization to articulate the industry’s interests (eventually, the Russian Association of Fertilizer Manufacturers was officially registered one year later). However, key players managed to form an initiative group to handle the issue. Soon they came up with a counter-initiative to the government, accepting a freeze on domestic prices for mineral fertilizers for one year. They also managed to mobilize some members of the Duma to delay the progression of the amendments through the hearings. Nevertheless, it did not work for them. As soon as agricultural lobby felt that they could not get their amendments through the Duma by the beginning of the new agricultural season, they changed their tactics and undertook a flanking manoeuvre to defeat anti-lobbyists using their connections in the government. In the early spring of 2008 prime-minister Victor Zubkov signed a government regulation imposing a 5% export tax on fertilizers for the period of two years. However, it turned out that some of players used their own influence in the government to capitulate on honorable terms. For example, export taxes for Uralkaliy and Silvinit were significantly less than for the rest of the industry.

*Summary and observations:*

- Trade associations and grass-root campaigns in Russia generally have limited influence on the process of legislative and administrative decision-making. However, they can be of great use for business lobbyists whenever the latter are able to clearly attach their industry’s cause to the general public interest.
- In most cases, prominent Russian businessmen are bound to pursue a career in politics, government and legislation (even if they do not like to do so), for a number of reasons:
  - these are the best positions to lobby their company’s and industry’s interests

and to protect their assets;

- in most cases there is no other way to do the job due to the lack of an effective lobbying system of their interests' representation.

- Lobbying the executive branch of authority in Russia seems to be more effective than legislative lobbying, though it can be considered as the most difficult genre and the least transparent activity.

#### **4. The regulation and self-regulation of lobbying activities: two approaches**

Generally, according to international practice, there are two key approaches as to how to eliminate or at least minimize risks of corruption in the process of lobbying. Both approaches are based on bringing in more transparency and accountability: 1) to control those who are being lobbied, and 2) in addition to that, to control lobbyists through formal legislation.

The first approach implies that no specific lobbying legislation is needed whenever there is an efficient system of anti-corruption laws and binding civil servants' codes of conduct in existence. One of the principles is that it is up to lobbyists themselves whether to introduce an ethical code of conduct through a self-regulatory body or not.

The second approach is based on idea that sets of general anti-bribery laws are not enough and that lobbying requires a special mechanism of regulation due to the high corruption risks involved in this kind of activity. Rules imposed by the state may include:

- mandatory procedure of registration for both firms and individuals engaged in lobbying activities and making this information open for public scrutiny;
- obligation of lobbyists to disclose the list of their clients, the purpose and targets of lobbying, fees received and money spent;
- strictly defined range of permissible lobbying activities, sanctioned by law;
- a 'cooling off' period for former state officials after they have left public office – before they could engage in lobbying, etc.

John Francis (1993, 12) argues that only state constraints in the form of such regulations on the activity of interest organizations can help in promoting the public interest. However, the vast majority of countries seem to avoid adopting specific lobbying legislation. One of the conclusions that Chari, Hogan and Murphy draw in their recent research (2010, 8) is that “advanced industrial democracies which have lobbying regulations are relatively rare: there are no lobbying rules in most jurisdictions.” Only 9 out of 46 countries that researchers included in their global comparison in 2008 had statutory rules for lobbying.

The U.K. provides a good example of the first approach, whereas the U.S.A. does so for the second.

*Lobbying in the UK.* Great Britain has always been a successful demonstration of the principle that ethical lobbying can exist without legislative regulation, and a still very low level of corruption can be enjoyed. The very core of the U.K. system is a strict control over parliamentarians and officials through a mechanism of disclosure of their financial interests and codes of conduct. Members of the Lords and MPs must explicitly declare any personal interests or benefits received from any third party that can potentially affect and bias their decisions. This information is collected and published on the parliament's website in the relevant Registers of Interests

(<http://www.parliament.uk/mps-lords-and-offices/>). The purpose of the Registers is stated as 'to provide information on any financial or non-financial benefit received by a MP or Member of the Lords which might reasonably be thought by others to influence their actions, speeches or votes in Parliament or influence their actions taken in their capacity as a Member.'

The Parliamentary Commissioner for Standards and Standards and Privileges Committee play the role of internal 'watchdogs' to make sure that parliamentarians comply with the Code of Conduct and to investigate cases of misbehavior by Members.

Another important element of the system is the press. "Though generally levels of corruption are pretty low in the U.K., occasionally the press gets hold of it and you can read about some parliamentarians being paid by companies to do something," says Nicolas Lansman, managing director of the London-based *Political Intelligence Group*, "And it is exposed in the press very quickly. We like a scandal in the U.K."

For example, one of the most notorious 'lobbygates' in the U.K. – the 'cash-for-questions affair' – was triggered by publication in *The Guardian* (Hencke, 1994). The newspaper alleged that one of London's lobbying firms, Ian Greer Associates, bribed two Tory Members of Parliament (Neil Hamilton and Tim Smith) 'for asking parliamentary questions at £2,000 a time on behalf of Harrods'. The Harrods' owner, Egyptian-born entrepreneur Mohammed Al-Fayed, quoted by *The Guardian*, revealed details of an 'offer' he had received from the lobbyist: "Mr Greer said to me: "You need to rent an MP just like you rent a taxi." Other famous examples when the British press exposed corruption in public affairs area include *The Independent* (Elliott, 2006) and *The Sunday Times* (Calvert, Newell and Gillard M., 2009) who published details of what later became known respectively as the 'cash for honors' and the 'cash for influence' affairs.

At the same time, the community of professional lobbyists and public affairs consultants in the U.K. has done a lot to introduce principles of ethical lobbying within the industry on a self-regulating basis. There are three key non-profit organizations in the sector which impose their own codes of conduct on their members:

- Association of Professional Political Consultants (APPC, <http://www.appc.org.uk/>), 62 members;
- Public Relations Consultants Association (PRCA, <http://www.prca.org.uk/>), 218 members, including both public affairs and public relations agencies;
- Government Affairs Group of the Chartered Institute of Public Relations (CIPR GAG, <http://www.cipr.co.uk/>).

In 2007, these three industry associations came together to form a new independent self-regulatory body to oversee their codes of conduct and keep up a public register for U.K. lobbyists under the stewardship of Sir Philip Mawer, former Parliamentary Commissioner for Standards and independent advisor to former Prime Minister Gordon Brown. The newly-formed UK Public Affairs Council (UKPAC, <http://www.publicaffairsCouncil.org.uk/>) is expected to begin functioning in February 2011.

In fact, U.K. lobbyists are very eager to prove that they are able to keep order in their own domain by means of self-regulation, understanding that statutory regulation might have unintended consequences for them and hurt the industry in one way or another.

"So far it works very well," says Nicolas Lansman of *Political Intelligence*, "However there is still the threat of formal legislation by Parliament if Parliamentarians feel that standards amongst lobbyists are insufficient. The irony is that 'lobbying scandals' have

mainly been around very few MPs and Lords acting inappropriately and being exposed by the press and media. The lobbying sector is keen to prove we have high standards underwritten by a code that is enforced and the transparency of clients.”

*Lobbying in the USA.* Just like in the U.K., public officials and Members of Congress in the U.S.A. perform their duties under strict guidelines outlined by law and codes of conduct. There are the ‘gift rules,’ personal financial disclosure requirements for different categories and levels of state officials and anti-bribery legislation of broad application designed to outlaw corrupted practices.

Nevertheless, above all of that there is a strict specific statutory regulation of lobbying activities. As James Connor, director of the Woodstock Theological Center, explains in his study, “the principal mechanism for regulation <in the U.S.A.> has been disclosure – public reporting of the lobbyist’s identity, the lobbyist’s client, the subject matter of the legislative representation, and the lobbyist’s fees” (2002, 39).

The existing system was not built overnight. First it was introduced by the Lobbying Act in 1946. However, the statute was not comprehensive enough and had been drawing a lot of criticism through the decades that followed. According to James Connor (2002),

“... it targeted only those lobbyists whose ‘principal purpose’ was lobbying – thereby reaching the relatively few full-time professional lobbyists – and that it applied only to lobbying directed at members of Congress, rather than including lobbying of congressional staffs and official serving in the executive branch” (p. 39).

Quite naturally, it takes a great deal of legislative efforts to draw up meaningful and enforceable legislation – especially for such a complicated matter as lobbying.

In the foreword to ‘The Lobbying Manual’ (Luneberg and Susman, 2005), U.S. Senator Carl Levin assessed the situation with lobbying at the beginning of the 1990s:

“The 1946 Federal Regulation of Lobbying Act had become a dead letter; few lobbyists were in compliance, and the Department of Justice had declared the statute unenforceable. It was time for a new statute” (p. XXV).

In 1995, the 1946 Lobbying Act was replaced by the Lobbying Disclosure Act (LDA), which was meant to correct the shortcomings. Even despite a series of amendments that followed in the subsequent years, Senator Carl Levin was not quite happy (Luneberg and Susman, 2005):

“I remain disappointed that the Lobbying Disclosure Act does not cover paid efforts by professional lobbyists to stimulate grassroots lobbying, especially since some of these efforts result in sham, or so called “Astroturf,” lobbying” (p. XXVI).

Despite all the criticism, the LDA of 1995 succeeded in establishing one of the most transparent and accountable systems that ever existed. All the U.S. lobbyists are obliged to register with the Senate Office of Public Records (SOPR) and report their activities and fees received from their clients on the regular basis. This information is available for public inspection in the U.S. Senate website (<http://www.senate.gov>) in the ‘Public Disclosure’ section and searchable by lobbying agency’s and client’s names. The SOPR plays the key role as the body that processes, maintains and publishes public records filed for disclosure in accordance with not only the Lobbying Disclosure Act, but also the Federal Election Campaign Act, the Ethics in Government Act, the Mutual Security Act, and the Senate Code of Official Conduct.

The database of SOPR provides an unprecedented volume of data on national lobbying. Based on that, The Center for Responsive Politics ([www.opensecrets.org/](http://www.opensecrets.org/)), a Washington D.C. non-partisan and non-profit research group, makes accurate annual assertions of turnover and the number of actors in the lobbying industry. The most recent statistics of the Center indicate that there were 12,484 lobbyists in the U.S.A., who received US\$2.6 bn in fees in 2010 (see the table below) - quite impressive figures which clearly demonstrated how big the lobbying industry is.

Table 2. Turnover of the U.S. lobbying industry and number of officially registered lobbyists.

Year	Total lobbying spending, US\$ billion	Number of lobbyists
1998	1.44	10,404
1999	1.44	12,943
2000	1.56	12,541
2001	1.64	11,845
2002	1.82	12,131
2003	2.04	12,923
2004	2.17	13,158
2005	2.43	14,070
2006	2.62	14,515
2007	2.85	15,868
2008	3.29	14,214
2009	3.48	13,664
2010	2.60	12,484

Source: The Center for Responsive Politics ([www.opensecrets.org/lobby/index.php](http://www.opensecrets.org/lobby/index.php)), based on data from the U.S. Senate Office of Public Records.

Of course, no statute and no law enforcement can be perfect enough to become a panacea. In 2004-2006 the American political establishment suffered a number of painful scandals related to corrupt lobbying practices. Three separate cases of the 'superlobbyist' Jack Abramoff and two Republican members of House of Representatives - Randall "Duke" Cunningham and Robert "Bob" Ney – revealed the multi-million dollar scale of corruption. Does it mean that the system of 'double checks' malfunctions? Maybe, to some extent. However, the transparency of the system makes it much easier to detect, investigate and shed the light on corrupt dealings between politicians and favour seekers, which is in itself a great public benefit.

## **5. Conclusion**

What model of control over lobbying activities is more appropriate for Russia – state regulation or self-regulation? Which one of the two could sooner draw a distinct line between lobbying and corruption? The answer to this question requires a re-assessment of the key findings of the present paper:

- The proper political culture of a healthy relationship between business and authorities has not developed yet in Russia, though some rare examples of ethical and corruption-free lobbying campaigns can be found in the State Duma due to the natural openness and transparency of the parliamentary process of decision-making.
- The vast majority of business actors regardless of the size of their business are used to advocating economic interests in government bodies at all levels by means of ‘wild GR’. They do not seem to believe in the effectiveness of ‘civilized’ lobbying (putting forward good arguments, not money or benefits). Those who for some reason refuse to follow this pattern are destined to manage without any support and protection on behalf of the authorities, which can be considered as a substantial competitive handicap. Generally speaking, business has very little demand for ‘civilized’ lobbying services at the moment.
- Anti-bribery and anti-corruption legislation in Russia seems to be incomplete and poorly enforced. Pursuant to the Presidential Decrees of 2009, top state officials and Members of the Parliament are obliged to disclose incomes and property that belongs to them and to their immediate relatives. Nevertheless, the volume of information being disclosed appears to be insufficient and there is no evidence so far that somebody has been prosecuted for underreporting or concealing his or her equities. Registers of interests do not exist in Russia; conflicts of interest among public officials are quite common and not subject to public scrutiny.
- A professional community of lobbyists who are interested in promoting the standards of ethical lobbying in Russia is still relatively small and weak, though it has had a positive tendency to increase over the last 4-5 years. Quite a number of Russian political consultancy firms lost their clients and had to move into the field of GR after the changes to the electoral system for regional governors (since 2004 governors are appointed by the President, not elected) and for the State Duma (since 2007 single-mandate constituencies were cancelled, so all Members of the Parliament are elected according to the proportional representation model on the basis of party lists of candidates). There is also a number of U.S. and European lobbying and public affairs groups, such as The PBN Company, Cassidy & Associates, MMD, etc., which set up their offices in Moscow to provide local services to their international clientele – multinational corporations doing business in Russia – in accordance with ethical standards they are used to, of course. Four trade associations related to lobbying have established GR Committees within their structure: the Russian Managers Association, the Russian Association of Public Relations, the Russian Communications Consultancies Association and IABC Russia (branch of International Association of Business Communicators).

The present state of affairs looks pretty much like a vicious circle in which none of the parties involved – providers of lobbying services, clients (business) and their counterparts in government - are able to change the situation for the better even if they want to.

Under such circumstances, formal statutory regulation of lobbying activities similar to the one existing in the U.S.A. seems to be the only solution – as an important addition to the general anti-corruption campaign. In fact, drafting Russian Lobbying Act is underway now. Unlike three previous attempts, this draft would have more chances to be adopted since it is initiated by the President's administration and its concept approved by the Ministry of Justice. Members of the Russian lobbying community expect that the draft would be submitted for readings in the State Duma in 2011-2012.

Obviously, the effect of adoption of the Act would not be immediate. In the beginning it could even complicate the life of 'civilized' lobbyists, assuming there would be additional state requirements for them, whereas 'shadow' lobbyists could neglect registration and proceed to act without much constraint. However, the Act could give an impetus for ethical lobbying to gain more and more respect and space within the political system. Nicolas Lansman of *Political Intelligence* is quite confident that "as lobbying industry matures, companies should want to work with public affairs consultancies that are ethical and transparent." Gradually, the changes could affect public officials as well. "Civilized lobbying is the peculiar value of mature and well-established political cultures, in which representatives of authority are less inclined to engage in 'adventures' and trading their status and influence for cash," says Viacheslav Tabachnikov, the head of the Moscow office of *Cassidy & Associates CIS*.



## Acknowledgements

I would particularly like to thank the Wincott Foundation and its Chairman Sir Geoffrey Owen, who offered me the Fellowship and thus enabled me to spend a remarkable term in Oxford University to write this research paper.

Secondly, I am very thankful to the Reuters Institute for the Study of Journalism for being such a perfect base for both research and making friends with journalist colleagues from all over the world. The Institute's seminars and events create very inspiring and stimulating atmosphere, thanks to the efforts of David Levy, James Painter, John Lloyd, Sara Kalim, Alex Reid, Kate Hanneford-Smith and Amanda Armstrong.

Special thanks to my Moscow employer, *The Business Magazine*, and its Editor-in-Chief Denis Viktorov, who did not mind giving me a three-month sabbatical from our editorial routine.

I am also very grateful to my supervisor Dr Carol Leonard, the Oxford University Lecturer in Regional Studies of the Post-Communist States, for precious advice and connections to other people of knowledge, and for familiarizing me with some great academic traditions in Oxford.

I am particularly thankful to a number of professional lobbyists both in Russia and U.K. who provided me with a deep insight of their industry during interviews:

Nickolas Lansman, Managing Director of *Political Intelligence Group*;

Igor Mintusov, CEO of *Nikkolo M* company;

Pavel Tolstykh, Head of the Center for Government Relations Studies and Associate Professor at Moscow-based High School of Economics;

Viacheslav Tabachnikov, the managing director of Moscow office of the international lobbying group *Cassidy & Associates*.

## **Bibliography**

- Belton, C. (2007)** 'I don't need to defend myself.' *Financial Times*, July 13 2007, p.8.
- Calvert, J., Newell C. and Gillard M. (2009)** Revealed: Labour lords change laws for cash. *The Sunday Times*, January 25 2009. Available online at <http://www.timesonline.co.uk/tol/news/politics/article5581547.ece>.
- Chari, R., Hogan, J. and Murphy, G. (2010)** *Regulating lobbying: a global comparison*. Manchester and New York, Manchester University Press.
- Connor, James - editor (2002)** *The Ethics of Lobbying: Organized Interests, Political Power, and the Common Good*. Washington D. C., Woodstock Theological Center, Georgetown University Press.
- Denisov, D. (2008)** Progulka v lobby. *Biznes Zhurnal*, 9, 43-47.
- Elliott, F. (2006)** Money talks: Twelve angry men and one shame-faced Prime Minister. *The Independent*, March 26 2006. Available online at <http://www.independent.co.uk/news/uk/politics/money-talks-twelve-angry-men-and-one-shamefaced-prime-minister-471510.html>.
- Francis, John. (1993)** *The politics of regulation: a comparative perspective*. London, Blackwell.
- Frye, Timothy (2002)** *Capture or Exchange? Business Lobbying in Russia*. Routledge, Europe-Asia Studies, University of Glasgow.
- Hencke, D. (1994)** Tory MPs were paid to plant questions says Harrods chief. *The Guardian*, October 20 1994. Available online at <http://www.guardian.co.uk/politics/1994/oct/20/conservatives.uk>.
- Hrebenar, Ronald and Bryson, Morgan (2009)** *Lobbying in America: a reference handbook*. California, ABC-CLIO.
- Keynes, John (2004, first published in 1926)** *The end of laissez-faire: The economic consequences of the peace*. New York, Prometheus Books.
- Kriazhev, R. (2007)** Prokuratura popravila sovetnikov Viktora Cherepkova. *Kommersant (Nizhniy Novgorod)*, September 22 2007.
- Lehne, Richard (2006)** *Government and business: American political economy in comparative perspective*. 2<sup>nd</sup> ed. Washington, D.C., CQ Press.
- Lunenburg, William and Susman Thomas (2005)** *The Lobbying Manual: A Complete Guide to Federal Law Governing Lawyers and Lobbyists*. Chicago, Illinois, American Bar Association.
- Mack, Charles (1997)** *Business, Politics, and the Practice of Government Relations*. Westport, Quorum Books.

**Miliband, Ralph (1969)** *The state in the capitalist society*. London, Wiedenfeld and Nicolson.

**National Public Radio (2006)** *A Lobbyist by any other name? Discussion on Ulysses Grant and origins of the term lobbyist*. Broadcasted on 22/01/2006, guest speaker: Jesse Sheidlower, editor-at-large for the *Oxford English Dictionary*. Transcript is available online at [www.npr.org/templates/story/story.php?storyId=5167187](http://www.npr.org/templates/story/story.php?storyId=5167187)

**Nownes, Antony (2006)** *Total lobbying: what lobbyists want (and how they try to get it)*. Cambridge, Cambridge University Press

**Ostrovsky, A. (2004)** Father to the oligarchs. *Financial Times*, November 13 2004, p.6.

**Rutland, Peter (2001)** *Business and the state in contemporary Russia*. Boulder, Westview Press, Pennsylvania State University.

**Savkin, A. (2009)** Deputatskiy zanos. *Russkiy Newsweek*, June 1 2009.

**Vetvinski A. (2007)** Pochemu biznes v Rossii ne finansiruet oppozitsiyu. *BBCRussian.com*, November 28 2007.