

Lehmbruch, Barbara

Working Paper

Managing uncertainty: Hierarchies, markets and "networks" in the Russian timber industry. 1991-1998

BOFIT Discussion Papers, No. 4/1999

Provided in Cooperation with:

Bank of Finland, Helsinki

Suggested Citation: Lehmbruch, Barbara (1999) : Managing uncertainty: Hierarchies, markets and "networks" in the Russian timber industry. 1991-1998, BOFIT Discussion Papers, No. 4/1999, ISBN 951-686-906-8, Bank of Finland, Institute for Economies in Transition (BOFIT), Helsinki,
<https://nbn-resolving.de/urn:nbn:fi:bof-201408072106>

This Version is available at:

<https://hdl.handle.net/10419/212463>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



BOFIT

Discussion Papers

1999 • No. 4

Barbara Lehmbruch

Managing uncertainty: Hierarchies, Markets and
"Networks" in the Russian Timber Industry. 1991–1998

Bank of Finland
Institute for Economies in Transition, BOFIT

Bank of Finland Institute for Economies in Transition BOFIT

Economists

Mr Pekka Sutela, head

Russian economy and economic policy
Russia's international economic relations
Baltic economies

Mr Tuomas Komulainen, economist

Russian financial system
Currency crises

Mr Iikka Korhonen, economist

Baltic economies
Russian financial system

Ms Seija Lainela, economist

Baltic economies
EU policy and Eastern relations
Russian economy and economic policy

Mr Juhani Laurila, senior adviser

Russian economy and economic policy
Baltic countries' external relations

Mr Tom Nordman, senior adviser

Chinese economy
Foreign exchange markets

Mr Jukka Pirttilä, research supervisor

Public economics
Transition economics

Mr Jouko Rautava, economist

Russian economy and economic policy

Ms Laura Solanko, economist

Fiscal federalism
Russian regional issues

Information Services

Ms Joanna Ahlberg, department secretary

Department coordinator, publications traffic

Mr Timo Harell, senior clerk

Press monitoring

Ms Päivi Määttä, information specialist

Institute's library, information services

Ms Tiina Saajasto, research secretary

Statistical analysis, statistical data bases

Ms Liisa Sipola, research secretary

Information retrieval, Institute's library and publications

Publications

Russian and Baltic Economies –

The Week in Review

A two-page weekly review of the previous week's focal events in Russia and the Baltic states.

Russian Economy – The Month in Review

A four-page review with analysis of developments in Russia's economy, fiscal policy and financial markets.

Baltic Economies – The Quarter in Review

A four-page review with analysis of recent economic developments in Estonia, Latvia and Lithuania.

BOFIT Discussion Papers

A series devoted to transition issues. Contains academic studies on transition economics by BOFIT economists and guest researchers.

BOFIT Online

An electronic publishing series devoted to transition issues. The focus is on descriptive work on economic policy and economic developments in transition economies. Papers are either in English or Finnish.

Contact us

Bank of Finland Institute for Economies in Transition (BOFIT)

P.O. Box 160 FIN- 00101 Helsinki

Phone: +358 9 183 2268 Fax: +358 9 183 2294 Email: bofit@bof.fi (firstname.surname@bof.fi)

Web: www.bof.fi/bofit

BOFIT
Discussion Papers

1999 • No. 4

Barbara Lehbruch

Managing uncertainty: Hierarchies, Markets
and “Networks” in the Russian Timber
Industry. 1991–1998

Bank of Finland
Institute for Economies in Transition
BOFIT

ISBN 951-686-906-8 (print)
ISSN 1456-4564 (print)

ISBN 951-686-907-6 (online)
ISSN 1456-5889 (online)

Suomen Pankin monistuskeskus
Helsinki 1999

Contents

Abstract	5
1 Introduction	6
2 Market-building in the Post-Soviet Timber Industry	8
3 The Emergence and Role of Roslesprom: Ministerial hierarchy revisited?	12
4 “Network” ties in the timber industry – myth or reality?	14
4.1 “Clans”	15
4.2 Buffering and vertical integration	15
4.3 Multiple network ties	16
5 Fragmented clientelism: Multiple Network Ties and Business- government interaction	16
6 Conclusions	23
Notes and references	25

All opinions expressed are those of the author and do not necessarily reflect the views of the Bank of Finland.

Barbara Lehbruch*

Managing uncertainty: Hierarchies, Markets, and “Networks” in the Russian Timber Industry. 1991-1998

Abstract

The paper investigates institutional development in the Russian forestry sector after 1991. As it argues, while there has been a great degree of decentralization, original market-oriented reform blueprints for the industry were only partially implemented. The reasons for this can be found largely in the failure of weak state institutions to standardize and universalize transactions. Attempts to restore top-down, Moscow-centered branch administration in the form of a state committee have equally failed. The paper asks how best to describe the highly personalistic transactional landscape that has emerged from the failure of hierarchies and markets. It argues that there is little evidence of “clan”-style “directors’ networks” based on direct personal trust. Rather, economic actors prefer a two-pronged strategy of dealing with environmental uncertainty: While attempting to minimize environmental exposure by establishing forms of vertical integration, they also they hedge their exposure by maintaining multiple, often loose outside affiliations. This, it is argued, applies to both the horizontal, business-to-business level and to vertical clientelistic relations with state actors.

Keywords: Russia, timber industry, organizations

1 Introduction

Among professional Russia-watchers, the developments of the past year have brought widespread recognition that the process of transition is turning out to be, at the very least, much more time-consuming and problem-laden, and maybe also more open-ended than had previously been anticipated. The challenge for researchers thus becomes to describe the Russian political economy in its actual day-to-day functioning, as a phenomenon *sui generis*, rather than as a more or less close approximation of ideal-typical models. This is, in many respects, a daunting task. Clear patterns are often hard to discern; today's Russia is neither an old-style hierarchical system nor yet – in the absence of crucial institutional underpinnings – a market economy in any serious sense of the word.

Searching for useable concepts, researchers have been increasingly taking recourse to the catch-all notion of "networks". Some had theorized along these lines early on: thus, Kuznetsov in 1993 argued that "when markets are 'thin' and there is a hierarchical failure the initial shape of the institutional configuration is determined more by personal relationships than by the exigencies of the market"¹; David Stark expressed similar ideas in a catchier fashion when he suggested that rather than "from plan to market", post-socialist societies might be moving "from plan to clan"². Similar ideas have in the meantime become much more widespread; they come in all shapes and colors and connected with very different kinds of value judgments. Strongly negative indictments of "cronyism" and "oligarchy" have even spilt over into the editorials pages of Western newspapers. On the other hand, some sociologists and anthropologists have taken network arguments in a more positive direction³, going as far as to argue that such phenomena reveal society's autonomous organizing potential.

Network arguments are based on a broad and extremely heterogeneous literature, some of it growing out of the study of industrial districts or East Asian business organization, some of it emerging from and extending the transaction cost school's "markets and hierarchies" debate. Modern market economies, the typical argument runs, are highly institutionalized mechanisms based on strong, codified, enforceable property rights; late developing or transitional societies frequently lack the administrative capacity and/or overall rationality to implement those mechanisms⁴. This affects the structuring of economic and social relationships. The lack of institutionalized trust normally provided by codified property rights makes it hard to sustain universalistic market rela-

tions; instead, economic actors resort to durable particularistic networks based on shared values and direct interpersonal trust⁵.

Assessing such arguments, there is no denying either the weakness of universalistic principles, or the resulting particularization of social and economic ties. However, the precise nature of such particularistic relationships needs to be examined much more thoroughly. The discussion often conflates different conceptions of "networks": on the one hand personal ties in general, weak networks characterized by low multiplexity, and on the other hand that of clans or cliques, dense networks with high multiplexity and hence, exclusiveness. More simply put, the widespread use of personalistic mechanisms does not automatically signify that such mechanisms are best described with the "clan" metaphor.

This is important since "clan"-based transactions do not function equally well in all kinds of contexts. It is often hard to pinpoint strong sources of interpersonal trust – such as ethnic communities, strong extended families or a Confucian value system enforced by a community of peers – similar to those identified in, for example, the East Asia literature. Mutual resource dependence and iterative transactions can be, and indeed have been, suggested as a substitute for shared values⁶; however these are subject to strong spatial constraints. Arguments about iterative transactions also presuppose that actors have relatively long time horizons. This, of course, is far from clear in contemporary Russia where extremely high levels of political as well as economic uncertainty have shortened time horizons and encouraged opportunism.

While not denying the existence, and importance, of "clans", I would like to concentrate on other possible responses to pervasive uncertainty. As this piece argues, under conditions when both institutionalized and interpersonal sources of trust are weak, actors are left with two other (distinct but complementary) strategies permitting greater control by the individual actor. On the one hand, they will seek to *minimize exposure* to an uncertain environment. With this goal, they pursue autarky through vertical integration (for example of supplies or even of transport infrastructure) or - where this is possible - substituting foreign for domestic partners. In this way, (internal) hierarchy replaces networks; direct control replaces or supplements the often precarious trust between actors. The existence of such buffering strategies helps explain the widespread Russian preoccupation with the "technological chain".

Autarky, however, is not a universal panacea; outside transactions remain necessary (this of course applies especially to the business-government relationship). Such transactions, just as in the network model, are managed by

building up particularistic relationships. However, unlike the network model, those relations typically are neither exclusive nor particularly "value-infused" or even, in many cases, long-term. Instead, risk in such cases can be usefully managed by *multiplying*, rather than *strengthening* ties. My contention here is that this relates to horizontal, business-to-business ties, as well as to vertical clientelistic relations with state actors. The resulting patterns differ markedly from those described in, for instance, the obligational contracting literature: There, classical arms-length, market-driven, multiple-partner relationships are usually juxtaposed with particularistic, trust-based, exclusive links with one single supplier or customer⁷. Here, in contrast, we are dealing with particularistic, hands-on relationships with a number of partners. This creates back-up options in the event of possible default; on the macro-level it produces a highly fragmented organizational landscape.

The preceding pages have considered competing forms of social order on an abstract level; in the main section I would like to explore these various options in a more empirical fashion, using a case study of the timber industry⁸. The following pages, thus, will review the main options developed above. Post-Soviet legislation envisaged a market-driven timber and woodworking industry interfacing with separate public forestry authorities charged with regulating and maintaining state-owned forest resources. To what extent, then, have market relations emerged within the industry and what factors have promoted and hindered them? Turning to the other extreme, how can we explain the repeated attempts to recentralize a Moscow-based form of branch agencies – were they, in fact, aiming to resuscitate Soviet-style hierarchical control, or are they perhaps better explained in a completely different fashion? Most importantly, what does the timber case tell us about the various types of particularistic links laid out above?

2 Market-building in the Post-Soviet Timber Industry

The guiding idea behind post-1991 Russian reform of the forestry sector was that of establishing a competitive market environment. Forestry legislation, such as the 1993 *Osnovy lesnogo zakonodatel'stva*, provided for a clear dividing line between the state-run forest service on the one and a privately owned, market-driven forest industry on the other hand. While the former, funded from the general budget, was to be charged with the conservationist task of maintaining publicly-owned forest resources, commercial harvesting opera-

tions would compete for stumpage sales or long-term lease of forest lands awarded on a straightforward auction basis⁹. This meant splitting up many previously existing operations: while the distinction between forest service and forest industries had organizational precedents in Soviet times, integrated forestry enterprises had become widespread. They would now have to be divided into *leskhozy* - forestry units - and *lespromkozy*, or harvesting enterprises.

Seen from 1991-92, the prospects for implementing the reformist market blueprint for the forestry sector must have seemed auspicious. If anywhere, market relations should have been relatively easy and fast to emerge in the timber industry – more so than, perhaps, in other cases. On an institutional level, the industry had always been very decentralized to start with. Minlesprom was a union-republic ministry with relatively limited access to Moscow fleshpots. This should have minimized opportunities for rent-seeking. At the same time, timber enterprises did have some very real opportunities of market-driven success: The forestry sector, after all, was and still is a modest (compared to oil and gas) but nonetheless serious export earner. Technological backwardness, in turn, should have been a lesser obstacle than in many other cases, due to the fact that timber is a fairly straightforward commodity that can be relatively easily adjusted to global market standards and specifications.

These assumptions seem to be confirmed by the industry's early post-Soviet trajectory. Organizational change and the break-up of the traditional branch administrative structures occurred in a much more radical fashion that was the case in most other industries. To be sure, change had been slow in the Gorbachev period¹⁰. By 1991, however, external disruptions to the industry had become too acute to ignore. Perhaps the most decisive shock was provided when, in June 1991, the bankruptcy of the state-owned Vneshekonombank drew then-foreign trade monopolist Exportles into its maelstrom, causing a temporary standstill of timber export operations¹¹. This started off a frantic search for alternative arrangements. In the process, regionally-based foreign trade organizations emerged as the powerful players they have remained to this day. At the same time, the central ministerial apparatus underwent a transformation of its own. The core of the former Minlesprom after a long series of organizational permutations re-emerged as a joint-stock company called "Rossiiskie Lesopromyshlenniki" and presided over by a former deputy minister, Igor' Sankin¹². Other former high ministry officials likewise set up shop on their own. Mikhail Busygin, a Brezhnev-era minister, came to head the foreign trade association "Vneshles", while Busygin's successor as minister,

Vladimir Melnikov, was president of the joint-stock company "Soiuz lesopromyshlennikov"¹³. Around these, and often connected through cross-holdings or overlapping membership, a variety of other organizations emerged: a timber industry insurance company, a "Timber Bank" (*Lesnoi Bank*), a specialized timber commodity exchange, and other, similar bodies. Organization-building was not restricted to the commercial sector proper: two separate timber industry associations were also set up in The "Union of Timber Exporters" (*Soiuz Lesoeksporterov*) was created in July 1992; a "Union of Timber Industrialists" (*Soiuz Lesopromyshlennikov*) followed months later. Just as other 1992 start-ups, these two bodies were created by old ministry insiders¹⁴; however, their mission statements, their names and even their formal status were visibly oriented towards Western organizational models.

In spite of such auspicious beginnings, it remains hard to describe the timber case in terms of a successful market transition. Some of the obstacles are specific to the industry, while others are widespread throughout the Russian economy as a whole. To begin with the resource base, there are grave problems with the strict separation of forestry and timber-processing activities. Given the calamitous state of Russian public finance, a budget-funded forest service has remained a benign fiction. In reality, *leskhozy* cover a significant part of their operating expenses - often at fifty percent and above - by the proceeds from forest thinning (*rubki ukhoda*) that in popular parlance have even been renamed to *rubki dokhoda*, or "felling for profit". In some cases, *leskhozy* have held onto or newly built their own sawing operations. They thus enhance their financial situation but simultaneously undermine the public-private, conservationist-industrial boundary as it has been written into forestry legislation.

To turn to harvesting enterprises proper, as outlined above access to cutting rights had been supposed to shift to a competitive basis. In practice, however, the allocation of harvesting "tickets" to this day is often based either on customary rights (usually of *lespromkhozy* that have long operated in one particular location) or outright corruption. The process as a whole is anything but transparent, and remains dominated by particularistic principles. Sadly, the situation does not seem to have been substantially improved by the recent introduction of a new federal Forestry Code. Under the old system cutting rights had been allocated on the *raion* level and suffered from a lack of transparency as auctions were often insufficiently publicized outside the *raion* boundaries. Supplementary legislation to the new (1997) Forestry Code has transferred the allocation of harvesting rights upward from *raions* to the re-

gional level of federation subjects¹⁵. However, it yet remains to be seen whether this modification will enhance transparency, rather than simply add to the already ample discretionary authority now amassed - and often abused - at the regional level.

Within the downstream industry, although there has been sweeping decentralization and virtually complete privatization, this has not so far led to the emergence of a true national market in timber products. Instead, fragmentation and particularism reign supreme. As elsewhere, barter and non-payments predominate, impeding or preventing the emergence of a functioning price mechanism. This is directly connected with the immense difficulties involved in setting up and securing transactions in the first place. Transport infrastructure, to name just one obstacle, is unreliable and often weighted against smaller market actors lacking powerful backing. As a consequence, many transactions are negotiated in complex chains involving regional governments. With regard to raw materials supplies as well as to transportation, the height of payments and also the opportunity to set up arrangements at all vary tremendously depending on the organizations involved.

On the enterprise level, as in many other sectors of the Russian economy, mass privatization has so far failed to bring with it hard budget constraints. During the time period under consideration, a large majority of enterprises has consistently failed to record a profit¹⁶. Problems abound in particular on the level of *lespromkhoz*y, many of which have had their bank accounts frozen for the non-payment of taxes¹⁷. Of course, official figures on profitability only reflect reality to an often very limited degree, but even if some or even most profit statements may be manipulated by tax-evading or otherwise secretive senior managers, the result for purposes of this argument remains the same. The important point, after all, is not whether or not the enterprise is *actually* running a loss; what counts is that from this point on, we leave the realm of arms-length market relations and enter that of politics. As examples in the timber industry shows very clearly, enterprise debts can be used – indeed, have been used – by regional authorities to establish control¹⁸. Firms, for example, may be forced or persuaded into regional conglomerates; there are even rumors that in some cases regional (tax and other) obligations were purposely engineered so as to achieve this aim.

3 The Emergence and Role of Roslesprom: Ministerial hierarchy revisited?

As the preceding section has described, the implementation of reformers' original market-driven blueprint for forest sector restructuring ran into massive obstacles. This seemed to confirm the doubts long held by conservatives within the industries, and boosted efforts to "reintegrate" the sector under the catchphrase of "restoring governability" (*vosstanovit' upravliaemost'*). Administrative developments in the timber industry thus proceeded in an anti-cyclical fashion. At a time when other industries were clinging to establishment branch management structures, timber organizations all but fell apart – only to be gradually rebuilt in the following years. This culminated in the establishment of a timber state committee in 1996, just as similar bodies were slowly being abolished in other branches. A case of Moscow reasserting control over its rebellious provinces? As the evidence shows, vectors of influence pointed in the exactly opposite direction. The resurgence of branch bodies, as I attempt to demonstrate in the following section, was due less to top-down restoration attempts, but rather resulted from a combination of political entrepreneurship at the center and demand from below, namely, timber regions which were anxious to establish a sectoral bridgehead in Moscow.

The recentralizing movement in the Russian timber industry was above all associated with an organization called "Roslesprom", or "Rossiiskaia lesopromyshlennaia kompaniia". Set up in December 1992, this state-owned but formally for-profit organization had originally been intended for the humdrum tasks of science funding and research coordination. However, this restriction was soon overcome by the extraordinary political skill of the organization's young chairman, Miron Taciun; it was not long before Roslesprom's role changed dramatically. Step by step, beginning in 1993, Roslesprom was given official responsibility for a number of functions theoretically in the domain of the "functional" ministries. Thus, an agreement with the Finance Ministry made Roslesprom the official intermediary for government loans and subsidies to the industry, and the Economics Ministry gave it authority to allocate export quotas¹⁹. Roslesprom was also empowered to administer the government shares in fully or partly state-owned enterprises; as a result, its representatives became board members of some of the main timber conglomerates, as well as infrastructure organizations such as ports. Some of these powers probably were shared, rather than fully delegated responsibilities. While the formal side of this process is documented, the decision-making behind it is

harder to reconstruct. It is clear that Taciun was skillful at building alliances with key figures in government²⁰. Often material benefits were traded in exchange for political support or power-sharing agreements: Thus, for instance, Igor' Shurchkov, the former head of Goskomprom (which also had delegated substantive rights to Roslesprom) later came to head a Roslesprom daughter company in Boston²¹.

The gradual broadening of Roslesprom's tasks resulted in a hybrid organization combining both regulatory and commercial activities in an often corrupt fashion. On the one hand, Roslesprom had become a quasi-state committee and engaged in the usual activities associated with this function. Thus, in 1995 the organization drew up a "Federal Program for the Development of the Timber Industry"²²; in cooperation with the unions, Roslesprom also took part in the formulation of workplace safety measures and of a new - probably largely academic - industry-wide wage agreement. At the same time, the company used its newly acquired gatekeeping position in order to take over potentially lucrative activities or existing firms. Thus, Roslesprom took over the network of foreign representative offices belonging to the former Soviet timber trade organization "Eksportles" and incorporated them into its own commercial daughter company "Roseksportles". It also created an industry-specific insurance company intended primarily to cater to timber workers. Its standards body, "Lessertika", attempted to monopolize export certification while another subsidiary, "Lestorgtrans", acted as commercial intermediary in the transport sector.

Not astonishingly, Roslesprom's combination of regulatory and commercial functions lent itself to exploitation, and examples of the abuse of its regulatory/allocative powers for commercial profit abound. It was not uncommon, for example, for Roslesprom to demand that enterprises allocated subsidized loans or export quota conduct their export through the Roslesprom subsidiary, Roseksportles. The commission charged for such deals by Roseksportles often significantly exceeded the market rate²³. Such practices were widely criticized within the industry; Roslesprom officials, however, not only did not see any harm in them but on the contrary considered them as beneficial for the industry. Thus, Roseksportles general director Kazikaev in a 1995 interview openly criticized the allocation of government loans to some of Russia's largest timbermills on the grounds that they were refusing to export through his agency: "I have to say that such a policy is not conducive to a growth of export volumes, nor to its enhanced efficiency"²⁴.

On the regional level, Roslesprom rather unsuccessfully pursued a policy

of recentralization. The main instrument towards this goal was the creation of timber industry "*khol'ding*" - regional holding companies (often based on old regional administrative units) that were transferred some of the remaining state shares in enterprises under privatization. But while the topic rated high on Roslesprom's agenda and indeed for a long time came to very much dominate the company's official statements, a sober assessment shows that its attempt to re-monopolize the industry had essentially failed - at least as far as stated policy goals go. Holdings had indeed been formed on paper, but none of them held controlling shares in the enterprises they comprised, and as far as corporate governance goes, enterprise management largely ignored them.

After what has been described, Roslesprom should have been vehemently opposed by regions; yet, though it was strongly disliked, the opposite was the case. The organization's official standing reached its apex with a presidential decree from June 15, 1996 which elevated it to State Committee for the Timber Industry (*Goskomlesprom*)²⁵. The timing of this decision - highly contentious in government circles²⁶ - just days before the 1996 presidential elections and at a time when similar agencies were being abolished, rather than newly created, says a lot about center-regional relations and the role of Roslesprom itself. Close analysis shows that the decree was in the first place an election-related concession to long-standing demands from timber-producing regions²⁷. This in turn suggests that we are dealing not with a restoration of central control, but rather with a case of regulatory capture. Regional officials I interviewed jealously defended their prerogatives vis-à-vis central agencies in general and distrusted Roslesprom in particular. If they nonetheless lobbied to have it elevated in status, plainly the agency was viewed less as an administrator than as a potential advocate. Its empire-building ambitions were widely denounced, but not seen as a threat.

4 "Network" ties in the timber industry – myth or reality?

Space constraints make it difficult to provide a very detailed description of the different forms particularistic "network" ties have taken on in the timber industry. I will be providing an extended discussion elsewhere²⁸; in this article, I restrict myself to summing up those research results in condensed form. I inquire into practical manifestations of the "clan" concept on an industry-level, and discuss its applicability to the timber case. I then sketch out how the alternative organizing principles outlined in the introduction - vertical integra-

tion and weak multiple ties - play out in the reality of the timber industry. Section V then goes on to discuss in detail one particular manifestation of organizational overlap on the business-government level.

4.1 "Clans"

"Clan"-style explanations of the Russian transformational trajectory have often focused on such issues as the causation of non-payments. Thus, they would ask to what extent supply chains are maintained within traditional, but possibly also reconfigured networks. Kharkhordin and Gerber argued in 1994 that "directors' networks" have been tightening their reach but maintaining deliveries within these tightened circles in spite of non-payments²⁹. Other authors have gone so far as to claim that virtually all relationships in Russian industry are based on ties set up under the command economy³⁰.

Evidence I have examined for the timber industry does not support these claims. Supply chains frequently have been badly disrupted as more and more enterprises have re-oriented their deliveries or ceased production altogether. Surveys of regional timber industry enterprises conducted by a group of international researchers showed that unreliability of partners was widely regarded as a problem or a big problem³¹. Demands for pre-payment are becoming more and more widespread. Companies do search for solutions to those problems, but based on the evidence I have seen network loyalty does not seem to be the primary such solution.

4.2 Buffering and vertical integration

There are clearly elements of such a strategy in the timber industry. To be sure, the industry has seen much less large-scale vertical integration than other sectors; so-called "financial-industrial groups" have been comparatively scarce. This, however, is only to be expected in a strongly export-oriented raw-materials based industry, which often can, and does, reduce its environmental exposure by entering into direct transactions with foreign partners. The composition of exports, consequently, has been shifting away from more highly processed products towards a higher share of round log exports. That being said, there is still a definite striving for vertical integration along the production line. In particular, attempts to secure supplies by gaining control of logging operations (*Iespromkhozy*) are widespread³². In the Arkhangel'sk area, for instance,

local paper-mills have acquired majority shareholdings in dozens of *lespromkhozy*; similar developments can be observed in other regions³³ Exporters also have attempted to achieve organizational link-ups in the transport sector, in particular with sea-ports, in order to control environmental uncertainties caused by weak transport infrastructure.

4.3 Multiple network ties

In the introduction I hypothesized that given the levels of uncertainty prevailing in the Russian business environment, actors can be expected to maintain multiple alternative links so as to be able to quickly resort to fall-back options in case one or more of their partners renege on agreements. A thorough investigation of this question would require a very detailed and custom-tailored interview process that would have been beyond the capacity of a single researcher. However, what information is available from other sources does bear out the hypothesis. According to IIASA's survey data, transaction patterns in the processing industry involve routinely working with at least 3-5 suppliers; those suppliers will also have other customers³⁴. This is also a pattern in international trade links. Finnish sources said they avoid sourcing the maximum possible delivery from one single supplier. According to one of UPM Kymmene's import managers there are clear upper limits on individual deliveries that serve to keep the level of risk acceptable; the average production of a typical *lespromkhoz* is a multiple of that limit³⁵. Multiple networking can also be very clearly observed in the political realm, and the following section goes on to examine one such case in detail.

5 Fragmented clientelism: Multiple Network Ties and Business-government interaction

In order to illustrate fragmented network ties in the political realm, I have focused in depth on the competition between Moscow ministerial spin-off organizations that haunted the industry for most of the decade. This competition was often described as a fierce battle between two opposing "camps". In a typical published description, a Russian journalist in 1995 characterized the situation as the not-so-peaceful coexistence of two "fairly clearly formed verticals": one of them "semi-state" (*polugosudarstvennoe*) - encompassing Rosles-

prom itself as well as the "holdings" and subsidiaries under its control -, the other a "purely marketized system" built around "Rossiiskie Lesopromyshlenniki" and "Eksportles"³⁶. Similar accounts were given to me by nearly every observer I interviewed at the time. However, as detailed analysis shows, this characterization suffers from numerous flaws.

Timber industry polarization had emerged as a result of Roslesprom's failure to achieve unchallenged control over the sector. In the regions, Roslesprom had a certain stature as an intermediary, but direct managerial control eluded it. In the center, it had built up a respectable fief, but not the monopoly position it had aimed for. The foreign trade agency "Eksportles", which Roslesprom had so successfully stripped of its foreign branches, continued operating and rebuilt its customer base. An attempted takeover of "Rossiiskie Lesopromyshlenniki" ended in a stalemate. The most visible stand-off, however, was on the level of collective organizations.

As already outlined, the year 1992 had seen two separate collective bodies set up. Initially, the two *soiuzy* – "*Soiuz lesopromyshlennikov*" and "*Soiuz Lesoeksporterov*" – had been largely complementary. *Soiuz Lesopromyshlennikov* focused on industry-wide coordination and dissemination efforts, for instance by organizing branch conferences; it also, under Roslesprom's guidance, became involved in federal policy exercises such as the Tripartite Commission. By the mid-1990s the Union had for all practical purposes become a Roslesprom subsidiary, complete with interlocking board memberships³⁷. *Soiuz Lesoeksporterov*, in contrast, restricted itself to commercial and export issues; the organization, for instance, was among the initiators of bilateral industry-to-industry talks with Finland and Japan about the pricing of certain categories of wood exports³⁸, and it was also involved in efforts to assure quality standards³⁹.

This division of tasks, however, was upset as Roslesprom began to aggressively expand its power base. "*Soiuz Lesopromyshlennikov*" was renamed to "*Soiuz Lesopromyshlennikov i Lesoeksporterov*"⁴⁰: A separate Timber Exporters' Union, this clearly signaled, would henceforth be superfluous. In addition, Roslesprom set up a number of separate new trade bodies - dubbed "flying associations" by their opponents⁴¹ - designed to handle questions of export to specific regions such as Scandinavia and Japan. Then or at an earlier point in time, Roslesprom also took over leadership of the Russian delegation at the trade talks themselves, which led to a marked shift in the character of those negotiations⁴².

In spite of the all-out warfare waged against it, *Soiuz Lesoeksporterov*

emerged from the confrontation in relatively good shape. It had of course been weakened, and by 1996 it had also lost numerous members, or rather, ejected them when they failed to pay their \$5000 annual dues⁴³. However, it was still included in Russian delegations to trade talks abroad (a fact studiously omitted in the Roslesprom-dominated "Lesnaia Gazeta"⁴⁴). Even after the defections, it had retained two thirds of its original membership in spite of its overall loss of authority, the turmoil of post-Soviet transition, and the high fees it was charging members. It remained vocal in policy discussion within and about the industry. Most importantly, it was still doing well enough to maintain its central premises and support a staff of six⁴⁵.

Summing up, the "camp" image was not unfounded as there were indeed two more or less clearly demarcated groups hostile to each other and engaged in public mudslinging. It is also true that - for whatever reasons - the two sides' approach to market principles differed. Nevertheless, once we venture beyond the leadership level and take a closer look at the membership basis of the respective "camps", some very curious facts emerge to considerably blur the picture. While details on *Soiuz Lesopromyshlennikov's* numerous individual members were unavailable, I have managed to obtain membership lists for *Soiuz lesoesporterov* for both 1993 and 1995⁴⁶. These show well-known names: In their overwhelming majority, the association's members were composed of big regional conglomerates and also regional trading firms, such as Severoeksportles and the Far Eastern Dal'les. As it turns out, we are not dealing with anything even remotely resembling a camp: Many of these firms were at the same time also closely associated with Roslesprom. The chairman of Sakhalinlesprom, an organization included on both lists, was even one of the select few outsiders represented in the Roslesprom *kollegiia*⁴⁷.

The politics of overlapping membership: an interpretation

Collective organizations in the timber industry largely lacked differentiation with regard to either their task or their clientele. This raises questions about members' motives: Given that multiple membership does not come free of charge, why did they enter such organizations, or, once they are members, remain committed to them? This question becomes all the more important since there is much to indicate that the phenomenon was not restricted to just the two timber industry *soiuzy*, but also seemed to include at least some of the commercial Minlesprom spin-offs. While no enterprise names were directly mentioned, for instance, "Rossiiskie Lesopromyshlenniki" in one of its annual reports described its original founders (*uchrediteli*) as 63 different "timber

industry enterprises and organizations"⁴⁸(the latter term typically denoting research institutes and traders). These shareholders presumably had formed the core group of enterprises in the former Minlesprom from which "Rossiiskie Lesopromyshlenniki" had devolved. As there are only a limited number of such enterprises, it is safe to assume the list did not differ much from the rolls of Soiuz Lesoeksporterov. Similar patterns may well be found in other post-ministerial "*akcionernye obshchestva*", especially as a fall 1992 government *postanovlenie* apparently enabled post-ministerial successor organizations to carry on as legal entities provided they were re-registered as joint-stock companies with enterprises as *uchrediteli*⁴⁹. Spin-off or start-up, all of them only had the same limited reservoir of potential members to draw on.

Multiple membership patterns have also been observed outside the timber industry, although not, as far as I am aware, on an industry level (presumably less because they do not exist, but rather for lack of detailed data and/or attention to the phenomenon). However, strikingly similar patterns have on occasion been noted for the national peak business and industrial associations. Their practical significance, unfortunately, has rarely been recognized; rather, the phenomenon is usually explained away in some way. Thus, Wiesenthal and Stykow explain members' simultaneous membership in different peak associations by arguing that members are in direct contact only with organizations' regional branch associations, where policy and ideological divisions tend to matter less. This presupposes, first of all, that such divisions do matter on the central level (a conclusion that is far from obvious); it also assumes loose coupling between central organizations and their regional subunits⁵⁰. However, even if these assumptions were confirmed this still begs the question why members find it at all worthwhile to join multiple organizations. A second type of argument centers on the supposedly transitional nature of many such associations. In this scenario, ex-apparatchiki turn political entrepreneurs by setting up their own "collective" organizations and competing for allegiance; most of them will prove unsustainable and we can then expect today's manifold fragmented agencies to consolidate into permanent patterns, such as, for example, that of Western European-style neo-corporatism⁵¹.

Such explanations become all the more attractive given that the central associations did indeed merge in 1997. In this study, however, I would like to propose an alternative explanation. To be sure, the Russian political economy over the past decade has seen tremendous change and can still be considered very much in flux. However, it is just as conceivable that "instability" and fragmentation might not be a transitional weakness, but could actually become

a permanent feature of the post-Soviet political economy. This in turn would mean that however fragmented and however small, existing structures somehow succeed in serving the purposes of their members or clients: After all, while political entrepreneurship alone may account for how organizations came into being, they clearly will also have to offer some sort of tangible benefits if they are to survive and prosper. In order to investigate this question, one will have to look at the concrete policy issues with which timber industry organizations have concerned themselves over the years.

Back, then, to the empirical level and to my main example, the two *soiuzy*. I have already described above some of the official activities in which they were engaged. Generally, they attempted to promote a public image centered on the defense of overall sectoral interests. Thus, *Soiuz Lesoeksporterov* stated at its number one goal "the representation and defense of Russian timber exporters' interests on the national and international level", while *Soiuz Lesopromyshlennikov* proposed to work towards "the unification and defense of the interests of *Soiuz* members on the domestic and international markets"⁵². They further went on to list a number of functions aimed at securing material resources or influencing regulatory decisions in order to benefit the sector as a whole. Thus, there has been a long-lasting surface battle in the Duma aimed at increasing allocations to the timber industry within the federal budget⁵³. However, the government's budgeting practices have for years systematically ignoring and under-fulfilling the expenditures side of the federal budget. Allocation decisions in practice seem to be made on a completely ad hoc basis by the Ministry of Finance or the presidential administration. In consequence, distributional conflict shifts from a collective to an individualistic basis, as enterprises are forced to resort to whichever channels are available on either the central or regional level in order to influence decision-making in their own particular case.

This is of course true not only of the budget situation; similar situations exist in other policy areas. Generally, implementation is neglected; new legislation is often passed without accompanying administrative guidelines to govern its application, without establishing proper monitoring procedures and without specifying sanctions for noncompliance⁵⁴. The regulatory framework itself is piecemeal, inconsistent, and often simply lacking. In this situation, claims by *soiuzy* to defend the collective good are reduced to absurdity: Given the overall lack of consistent frameworks, attempts at collective action become all but meaningless. Even when actors unite for the sake of some common goal - in 1995, for example, the issuing of a presidential decree supporting the indus-

try⁵⁵ -, the pervasive regulatory problems mean that even a successful outcome can be of little practical benefit to most.

The result is traditional Soviet-style "corridor politics": individual claimants woo individual officials in agencies such as the Ministry of Finance or the Tax Commission. This particularistic logic is further strengthened by the fact that as in Soviet times, not infrequently similar rights and responsibilities are allocated, not to one single agency, but to several. The export quota regime (now, of course, abolished) was a case in point. To take just the timber industry, a 1993 inter-departmental agreement gave Roslesprom authority to allocate timber export quotas⁵⁶. However, Roslesprom was not alone: Similar authority rested with a veritable host of other agencies and office-holders both in the center and the localities even including, at one point, every single member of the Russian cabinet⁵⁷.

I propose, then, that one of the main roles of the *soiuzy* - and maybe of other ministerial spin-offs as well - was to act as clientelistic brokers on behalf of their members and/or outside clients. Put bluntly, they were selling access to parts of the state apparatus, depending on their own, very particular connections. Seen in this perspective, multiple membership suddenly becomes eminently reasonable, and can be interpreted as a rational hedging strategy from the point of view of members: By multiplying memberships, they were also multiplying their chances of access to decision-makers. That the *soiuzy* did indeed play such a role is borne out by information I was given in interviews. *Soiuz Lesopromyshlennikov*, for example, was said to mainly act as a go-between for managers from the provinces in their interactions with different Moscow bureaucracies⁵⁸. *Soiuz Lesoeksporterov* dabbled in occasional consulting jobs for foreign firms⁵⁹. As to what it was they were able to offer their own members, specific ties are of course hard to reconstruct by an outsider. As I found during my interviews, the *soiuz* had excellent relations with Forest Service officials; above all, however, it enjoyed the sponsorship of the Ministry of Foreign Economic Relations (MVES), and thus indirect access to MVES resources. The relationship was mutually beneficial. It is not hard to see why the *soiuz* would not be averse to acquiring a powerful patron; as to MVES' side of the bargain, here we have to look at the ministry's own survival strategy. From 1992 on, the gradual extension of foreign trade liberalization began to threaten the institution's very existence. In response, MVES helped organize a number of industry-specific foreign trade associations and set up an umbrella organization, the Council of Exporters' Unions. Henceforth, then, the agency's new role would be to assist self-organization of industry. *Soiuz*

lesoeksporterov was one of the earliest such associations. This is not to say it was actually set up by MVES; rather, the two organizations' interests coincided, making them pursue a strategy of mutual support. MVES would thus gain a new and alternative source of legitimacy, while the *Soiuz* could expect benefits for its members' export operations. This was true especially of the early post-Soviet years: With trade liberalization proceeding in a slow and haphazard fashion, MVES could be an important (albeit not the only) source of export quotas, recognition as "special exporters" or similar privileges. MVES also had a network of foreign representative offices in place, and access to those and their services would have been highly valuable. The same was true of its potential role in gathering general market information. MVES had also retained a role on the diplomatic level - in all likelihood it was due to MVES connections that SLE continued to participate in Russian delegations abroad⁶⁰.

It should be stressed that such relationships by their nature often have little permanence. Brokers, for good or for bad, are tied to the fluctuating fortunes of their patrons within the governmental apparatus. Organizations *cannot* be stable simply because policies themselves are unstable and responsibilities (and thus, possible sources of rents) shift back and forth between different parts of the state apparatus. Moreover, rent sources, and with them brokerage, are not always purely sectoral in nature.

Extremely significant in this regard was the gradual shift in the sources of soft budget constraints. Over the years, soft loans and direct subsidies have increasingly given way to the politics of tax arrears. Then as now, there are soft budget constraints on enterprises, and in this regard there is little to choose between the two policies⁶¹. The change, however, certainly has affected brokers, if only because generally the politics of tax arrears (except for the very largest enterprises) seem to moving the negotiating process to a more regional level; sectoral agencies are not involved in this process. Sectoral bodies, thus, have been weakened; however, clientelistic intermediation as such has seen a shift in organizational location rather than in quality. This kind of change is permanent flux; it has little to do with the sort of reformist organizational consolidation proposed by some analysts. Specific organizations often will be, and indeed have to be, ephemeral; the stable element is their species as such, or differently put, a particular, clientelistic *mode* of operation.

This framework thus provides an alternative explanation both for the initial fragmentation of "interest organizations" and for the consolidation observed in 1997. At that point in time, the bureaucratic patrons of both timber industry *soiuzy* had been decisively weakened or even disappeared altogether:

Thus, the position of MVES had been gradually weakened in the mid-1990s. On the opposing side Goskomlesprom, together with other sectoral state committees, was merged into the Economics Ministry in the March 1997 government reorganization; a further 1998 reorganization under the Kirienko government added foreign trade functions to this body. It is against the backdrop of these events that the two *soiuzy* finally decided to merge into a single *Soiuz lesopromyshlennikov* in May 1997⁶². Neither is this likely to be the end of the story. To use just one example: should (as is often demanded even from within government circles) new subsidy programs for industry ever be partially implemented, we might yet see a further swing back from regionally based towards renewed sectoral brokerage.

6 Conclusions

Concluding, I would like to take a quick look both back and ahead in time. Post-Soviet strategies of managing uncertainty have not emerged in a vacuum. They are clearly based on Soviet patterns, but have evolved in very significant ways. Looking ahead, I then ask what chances or dangers the organizational strategies described in this article present for the future of the Russian transition.

Post-Soviet Risk Management Strategies in Historical Perspective

The basic risk management strategies I have described above are, of course, nothing new. They were initially brought about by the pervasive uncertainties and irrationalities that characterized the Soviet economic system (its rigid hierarchies notwithstanding). Today, actors still discernibly take recourse to the same basic strategies; the concrete organizational forms into which such strategies are translated, however, have changed to fit the changed environment. Institutional isomorphism with western pattern has played a crucial role in this adaptation process. For example, while under the organizational monopoly of the CPSU particularistic linkages were always clearly informal, either as lateral ties on gray markets or as clientelistic "family circles", some - but by no means all - such linkages have now been translated into formal organizations. In this process they have frequently built upon Western organizational categories, for reasons both of cognitive psychology (there are no indigenous categories under which to classify the new types of organizations) and of legitimation, often going so far as to adopt Western-style mission statements whole-

sale. This applies in particular to the "interest organizations" described in my study which yet, as I argue, are much better qualified as clientelistic brokers. Strategies of vertical integration have undergone a similar transformation: While in Soviet times they were mainly restricted to the development of in-house production or services within ministries and enterprises, the new legal mechanisms of the market economy have enabled actors to pursue autarky through mergers or formal alliances.

Stability versus efficiency? Practical implications of Russian governance practices

What are the consequences of particularistic risk management strategies for Russia in general and reformist policy in particular? On the plus side such practices have provided actors with considerable reserves of flexibility with which to respond to disruptions of the system. They have thus cushioned the impact of economic and political crisis and prevented further social unrest. The existence of such strategies thus helps explain the comparative social stability Russia has experienced throughout a decade of crisis.

Such positive effects have to be contrasted with at least as weighty negative ones. Briefly put, on the enterprise level organizational fragmentation of the type described reduces transaction efficiency and shortens time horizons; on the national level it severely impedes institution-building as well as governability in general. Thus, "stability" cuts in two different ways and can also be described as "inertia". Paradoxically, the same coping strategies that helped ward off total economic collapse by insulating actors from the impact of formal institutions also impede the construction of new institutions. As actors multiply their ties to central organizations, this in turn weakens allegiance to all such organizations and hence reduces their ability to enforce compliance. Patrons cannot anymore count on the automatic loyalty of an exclusive clientele⁶³. In such a light the recent debates about an alleged Russian or East European "corporatism" are reduced to absurdity. Power evaporates.

As to the enterprise level, multiple brokerage does not *reduce* uncertainty, but rather *manages* it; environmental uncertainty may be contained, but since repeated searches substitute for real regularization, it is not lessened in any significant way. This is not to say Russian hedging strategies do not work, on the contrary they are often surprisingly successful in many cases. However, they are cumbersome and involve tremendous losses from transaction costs that could be avoided under more conventional structures such as clans or formal organizations.

Notes and references

* Barbara Lehbruch, Ph.D. student at University of California at Berkeley. Visiting researcher at the Bank of Finland Institute for Economies in Transition. Email: lehbruc@socrates.berkeley.edu.

¹ Kuznetsov, Evgenii, "How can an economy adjust to simultaneous market and government failure? Lessons from the Soviet Union, contemporary Russia and countries of late-late industrialization", *Communist Economies and Economic Transformation* 5, 1993, pp.490-498; here: p. 492.

² Stark, David, "Privatization in Hungary: From Plan to Market or From Plan to Clan?" *East European Politics and Societies* 4, 1990, pp. 351-392.

³ Such arguments can be found, for example, in Janine R. Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1989-1998*, New York: St.Martin's Press, 1998, in particular pp. 103-104.

⁴ See, for example, Max Boisot and John Child, "From Fiefs to Clans and Network Capitalism: Explaining China's Emerging Economic Order," *Administrative Science Quarterly* 41, 1996, pp.600-628. For a broad discussion of the relationship between administrative capacity and market-building see the excellent treatment by Kiren Chaudhry in "The Myth of the Market and the Common History of Late Developers," *Politics and Society* 21, 1993, pp. 245-274.

⁵ Boisot and Child, p. 613; a similar argument is made by Richard Whitley, "The social construction of economic actors: institutions and types of firms in Europe and other market economies," in R. Whitley and P.H. Kristensen (eds.), *The changing European Firm: Limits to Convergence*, London/New York: Routledge, 1996, pp. 39-66.

⁶ For example, see Jacques Sapir, *Le chaos russe*, Paris: La Decouverte, 1996, pp. 67-69.

⁷ See for example Mari Sako, *Prices, Quality and Trust: Inter-firm Relations in Britain and Japan*, Cambridge: Cambridge University Press, 1992, pp. 11, 21-22.

⁸ Comparative case studies would be needed to extend the findings, of necessity tentative, to other sectors. Not all aspects are likely to manifest themselves equally strongly across sectors; vertical integration, in particular, depending on technological and other factors presumably would vary highly among industries.

⁹ Interestingly, public ownership of forest resources remained unchallenged throughout the drawn-out process of reforming forestry legislation; controversy centered on whether such state ownership was to be federal or regional in nature, and which organizations would be charged with organizing forest auctions.

¹⁰ While other branches, from 1988 onwards, were swept by waves of reorganizations which transformed entire ministries or their subunits into state-owned "concerns" or "associations", timber industry documents from that time were still dominated by traditional Soviet-style tinkering with hierarchical levels

¹¹ Personal interview with Jorma Kylmänen, UPM-Kymmene, Kouvola, Finland, March 16, 1999.

¹² Personal interview with Igor' Sankin, AO "Rossiiskie Lesopromyshlenniki", Moscow, October 10, 1996. There were many continuities between the two organizations: The new joint-stock company took over former ministerial workers; it also inherited substantial material assets, in particular the former ministry building itself - a prime chunk of real estate right in the center of Moscow (Personal interview with Sergei Stepanov, Soiuz Lesoeksporterov, Moscow, October 10, 1996). Rent payments, in consequence, became an important source of income for "Rossiiskie Lesopromyshlenniki"; other income came from the provision of various services, in particular in the areas of foreign trade and of engineering services (see *Otchet Pravleniia AO-korporaciia "Rosskiiskie lesopromyshlenniki" o deiatel'nosti Obshchestva za 1993 god*, Moscow 1993). The joint-stock company thus clearly built on the expertise and connections of the old ministerial staff.

¹³ This latter organization should not be confused with the almost identically named interest organization headed by David Lipman.

¹⁴ Pavel Eremeev: *Zachem nuzhen nam soiuz*", *Lesnoi biznes* 1, 1993, p.12.

¹⁵ See, for example, A. Chursin, "Chtoby ladit' s rynkom," *Lesnaia Gazeta*, August 4, 1998, p. 2.

¹⁶ A 1997 article puts the percentage of timber industry enterprises formally in risk of bankruptcy at a staggering 86 per cent (V. P. Stiazhkin, "Kriterii ocenki platezhosposobnosti lesnykh predpriatii," *Lesnaia Promyshlennost'* 2, 1997, pp. 6-7.

¹⁷ Kylmänen, 3/16/99, provided me with a vivid description of the problems created by this state of affairs.

¹⁸For example, see "Krasnyi poias: Teoriia i praktika kommunisticheskogo stroitel'stva," *Izvestiia*, September 5, 1997 (online edition) on the situation in Tula; I am grateful to Michael Obersteiner for similar information on Tomsk Oblast'.

¹⁹"Ekspertnoe zakliuchenie o pravomernosti nadeleniia sub''ekta predprinimatel'skoi deiatel'nosti polnomochiiami organa ispolnitel'noi vlasti", in: *Problemy lesopromyshlennogo kompleksa (Pressa o 'Roslesprom')*, Lesnaia Nov', supplement 1, May 1996:55-61.

²⁰ Among others, Aleksandr Shokhin, Vladimir Panskov, and Oleg Soskovec threw in their weight behind his agency. See Vsevolod Semenov: "Lesopromyshlenniki berut v ruki toporu", *Biznes-Moskovskie Novosti*, September 13, 1995, p.10.

²¹Irina Savvateeva: "V stolichnikh koridorakh vlasti...", *Izvestiia*, March 16, 1995.

²²*Federal'naia Programma Razvitiia Lesopromyshlennogo Kompleksa Rossiiskoi Federacii*, Moscow: Rossiiskaia Gosudarstvennaia lesopromyshlennaia kompaniia "Roslesprom", 1995.

²³By as much as a whole percentage point. (Personal Interview with Sergei Komlev, *United Financial Group*, Moscow, July 22, 1996.)

²⁴"Ostraia konkurentnaia bor'ba na rynke", *Lesnaia Gazeta* June 22, 1995, pp.1-2.

²⁵Kirill Vishnepol'skii: "Goskompaniia budet razdelena na komitet i kommercheskuiu strukturu", *Kommersant-daily*, June 18, 1996, p.9. The measure's practical impact ultimately remained limited: Together with other agencies, Goskomlesprom in March 1997 was integrated into the Economics Ministry.

²⁶According to Stepanov (10/8/96), then Finance Minister Iasin in particular raised vociferous objections.

²⁷ The episode is analyzed in much greater detail in my forthcoming Ph.D. dissertation at UC Berkeley.

²⁸For an extended treatment, see *ibid.*

²⁹Oleg Kharkhordin and Theodore P. Gerber, "Russian Directors' Business Ethic", *Europe-Asia Studies* 46, 1994, pp. 1075-1108; cf. in particular pp. 1077-1079.

³⁰ Sapir, *Le chaos russe*, pp.66ff.

³¹Details are provided in Lars Carlsson/Nils-Gustav Lundgren/Mats-Olov Olsson: *Forest Enterprises in Transition - Business Behavior in the Tomsk Forest Sector*, IIASA Interim Report, forthcoming 1999.

³²Personal interviews with Iulii A. L'vov, *Lesnaia Gazeta*, Arkhangel'sk, October 29, 1996, and Anatolii P. Ivanov, *NIPEIlesprom*, Moscow, September 23, 1996.

³³"Rukovodstvom AO 'Kotlaskii CBK' postavlena zadacha v techenie 1999 g. 60% potrebnosti obshchestva v lese udovletvorit' postavkami sobstvennykh lesozagotovitel'nykh predpriatii", *RIA "Oreanda"*, December 28, 1998 (online edition).

³⁴See Carlsson/Lundgren/Olsson, *Forest Enterprises in Transition*.

³⁵Kylmänen, 3/16/99.

³⁶Nikita Solodov: "Lesnoi Peredel", *Delovye Liudi*, September 1995, pp.20-12.

³⁷For instance, a Roslesprom vice chairman was simultaneously chairing *Soiuz Lesopromyshlennikov's* Committee for Timber Export - supposedly in his civilian persona. See Liudmila Levina: "Soiuz lesopromyshlennikov i lesoeksporterov Rossii – tak teper' budet imenovat'sia soiuz lesopromyshlennikov Rossii", *Lesnaia Gazeta* March 25, 1995, p.2.

³⁸Stepanov, 10/8/96.

³⁹ Kuricyn, A., "Inspekcionnyi kontrol' priemki balansov v Finliandii", *Lesnaia Gazeta*, July 22, 1995, p.2.

⁴⁰Liudmila Levina: "Soiuz lesopromyshlennikov i lesoeksporterov Rossii – tak teper' budet imenovat'sia soiuz lesopromyshlennikov Rossii", *Lesnaia Gazeta* March 25, 1995, p.2.

⁴¹ Sergei Stepanov: "Lesnaia torgovlia: puti, dorogi?.." in: *Problemy lesopromyshlennogo kompleksa*: 9-12.

⁴²As I was told during interviews, Roslesprom's attempts to dictate final outcomes drew angry protests from Scandinavian participants, triggering a complaint with the Council of Europe (Stepanov 10/8/96).

⁴³By 1996 the *soiuz* was down to sixty from an initial ninety-three members (Stepanov 9/30/96).

⁴⁴ For example, cf. Khoroshilov, A., "Deistvovat' soobshcha," *Lesnaia Gazeta*, October 3, 1996, p.2

⁴⁵ Stepanov 9/30/96. There were plans to cut the staff by one or two.

⁴⁶The lists are: "Spisok chlenov soiuza lesoeksporterov Rossii", *Lesnoi biznes* 1993, 1, p.15; also *Spisok chlenov Soiuza Lesoeksporterov, utverzhdenn obshchim sobraniiem soiuza 21.2.95g.*, typescript, Moscow: Soiuz Lesoeksporterov, 1995. Sergei Stepanov (10/8/96) also directly acknowledged members' overlap.

⁴⁷"Sostav kollegii Rossiiskoi gosudarstvennoi lesopromyshlennoi kompanii Roslesprom", *Lesnaia Gazeta*, February 9, 1995, p.1. Sakhalinlesprom's economic achievements have been widely touted in the Roslesprom-friendly *Lesnaia Gazeta*, and the company was given special assistance in preparing investment projects.

⁴⁸ *Otchet pravleniia.*

⁴⁹Personal interview with Iulii A. L'vov, *Lesnaia Gazeta*, Arkhangel'sk, October 29, 1996.

⁵⁰Helmut Wiesenthal/Petra Stykow: "Unternehmerverbände im Systemwechsel: Entwicklung und Status organisierter Wirtschaftsinteressen in den Transformationsprozessen Osteuropas und Rußlands", In Wolfgang Streeck (ed.): *Staat und Verbände*, Opladen: Westdeutscher Verlag, 1994 (= PVS Sonderheft 25/1994).

⁵¹ In a typical example of this argument, Paul Kubicek casually dismisses Ukrainian business associations on the grounds that "many 'groups' appear to be no more than a former *apparatchik*, a secretary and a fax machine", which he takes to automatically imply that they have no practical significance. (Paul Kubicek, "Variations on a Corporatist Theme," *Europe-Asia Studies* 1996, pp. 27-46; here: p. 35.)

⁵² Both self-descriptions contained in: *Obshchestvennye (nekommercheskie) ob'edineniia predpriatii i predprinimatelei Rossii*, Moscow: Tsentr politicheskikh tekhnologii, 1996, 47-48.

⁵³ This of course has been a staple of official statements by the leadership of both Roslesprom and Soiuz Lesopromyshlennikov; information about the process itself was provided in a personal interview with Aleksandr Sulakshin, *Soiuz Lesopromyshlennikov Tomskoi oblasti*, Laxenburg, July 13, 1997.

⁵⁴ In the timber industry itself, so-called "minimal export price" regulations are a case in point. Roslesprom and subsequently, Goskomlesprom on a regular basis issued such regulations. Without proper monitoring or penalties their practical impact remained limited; however, they did provide Roslesprom with a source of selective leverage over enterprises.

⁵⁵ Ochekurov, V.N., "Ot s"ezda k s"ezdu," *Lesnaia promyshlennost'* 2, 1996, pp.2-4.

⁵⁶Cf. above fn. 16.

⁵⁷Alexander Rahr, "Chernomyrdin limits powers of cabinet members," *RFE/RL Daily Report*, November 12, 1993.

⁵⁸Klevcov (9/13/96).

⁵⁹ Stepanov (11/15/96).

⁶⁰On the relationship between the two organizations see, for example, "V Soiuzе lesоeksрortеrоv Rossiі", *Lesnoi Eksport*, 1994, 1, pp.14-15; on exporters' unions in general see: Andrei Grigor'ev: "MVES delaet stavku na soiuzy eksрortеrоv", *Segodnia*, March 21, 1995, p.11; also Tat'iana Aslanova: "Otraslevye soiuzy proizvoditelei i eksрortеrоv: nelegkii put' na vneshnie rynki", *Delovoi Mir*, April 3-9, 1995, p.34.

⁶¹Indeed there seems to have been considerable overlap between the recipients of soft loans and the largest tax debtors.

⁶²See Igor' Popov: "Lesopromyshlennikov splotila bezvremennaia konchina", *Segodnia* May 31, 1997, p.6; also Liudmila Levina, "Za edinyi soiuz", *Lesnaia promyshlennost'* 1997, 3, pp.24-25.

⁶³Exclusiveness and thus, loyalty obviously come in varying degrees, depending on the scarcity of resources at a patron's disposal.

BOFIT

Discussion Papers

ISBN 951-686-906-8 (print)

ISSN 1456-4564 (print)

ISBN 951-686-907-6 (online)

ISSN 1456-5889 (online)

Editor-in-Chief **Jukka Pirttilä**

Bank of Finland Institute for Economies in Transition
(BOFIT)

P.O. Box 160

FIN-00101 Helsinki

Phone: +358 9 183 2268

Fax: +358 9 183 2294

bofit@bof.fi

www.bof.fi/bofit