

TRANSPARENCY AND NON-TRANSPARENCY OF OIL SECTOR IN RUSSIA'S REGIONS: SUBJECTS AND LEVELS OF ANALYSIS

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Outline of presentation at the Baku conference, April 6-8, 2006.

This presentation is based on interim results of a same-named research being carried out in Nizhniy Novgorod by the Russ-Expert-Transit NGO with the support from the Open Society Institute (New York) and the American University (Washington). Its analytical objective consists not so much in developing a certain ultimate model of transparency or in proposing to improve laws, but in defining the problems existing in this sphere, demonstrating their complexity and dependence on social relations and, on the basis of that, attempting to change the views on transparency¹.

Analytical opportunities

Several theoretical theses underlie the research concept.

First of all, transparency is a mega-term which needs to be clarified whenever it is applied. The issue of its *boundaries* is of special importance because the concept is *not universal* ("Universal things don't explain anything, they are subject to explanation themselves")². Accordingly, the strategy of the research consists in reinterpreting the concept of transparency by including it into the problem field of "oil relations" and comparing it with other concepts (communications, risks, corporate culture, etc).

Second, transparency is the **characteristics of social relations**, not of specific actors. In this sense, it would be an illustration of reductionism (a methodological approach which attributes the explanation of structural phenomena to the activity of individual actors) to talk about transparency or non-transparency with regard to a specific organization. One and the same actor may adhere to different models of transparency in different communication environments. It is the incorporation of the transparency concept into a certain social field that lends it the necessary dynamics. The problem of transparency implies the presence, so to speak, of the second (third, etc.) actor (overt or latent) or an entity (institutional environment).

Third, a more solid system of **external communications** leads to greater **transparency**. These communications can be different: political, social, professional, etc. The actors with which foreign companies maintain contact have their own expectations and visions of openness they have to respond to.

Fourth, the **demand for transparency** forms as a result of this interaction. This demand is of *complex and structural* nature because it is difficult to unequivocally "tie" it to the policy of one particular subject.

Fifth, there is a **demand** in society for both transparency and **non-transparency** which can be attractive in different forms (in the form of confidentiality, commercial secret, etc.). The "production" of non-transparent practices has a strong foundation related to specific economic and other interests. In this sense, we can talk about the existence of two strategies in the segment of economic relations we are studying: *certainty* and *uncertainty*, and both have their own logic.

¹ Which fully meets the mission of intellectual workers as defined by Michele Foucault. See Michele Foucault. *Intellectuals and power*. Moscow: Praxis, 2005. P. 273.

² Gil Deleuze, Felix Guattari. *What is philosophy?* Moscow – St. Petersburg, 1998.

A whole series of practical considerations are based on this very provision. Its objective is to determine the real *scope of transparency* the oil sector can afford and the spheres in which the proposed measures are applicable. In doing so, pinpointing the addresses (beneficiaries) of transparency and the conditions for achieving it could be important components of an analysis.

Models of transparency

1. **Crisis.** It is applied in cases when an incident takes place (e.g. a pipeline emergency leading to environment pollution), *resonates with the public* and requires reaction on the part of oil company (OC) management in the form of disclosure of some information. There have been examples in several regions of the Russian Federation when OCs reconsidered their information policies towards greater openness after major technical accidents leading to great concerns on the part of public organizations. *Structure of relations* – OC – noncommercial organizations (NCO) – mass media (MM).
2. **Political.** Progress towards transparency in this case is the result of *political will* expressed through administrative rules and appropriate institutions. Such a scenario can be an enforced measure for the players of the oil market, i.e. an answer to the requirements of the state. *Structure of relations* – OC – state bodies and administrative apparatus.
3. Oriented towards **economic interests** of oil companies proper. Transparency is an integral part of the strategy of rational use of *information* (creating newsworthy events and conducting effective advertising campaigns) and *social* (gaining trust of clients and consumers) resources.

“Transparency has its own price. One-off expenditure can be divided in three sections: legal consultancy, financial consultancy and structuring... Based on these parameters, an average company with the turnover of up to \$10 million will have to pay circa \$70,000 for transparency... Using transparency, it is possible to sell not only an interest share or a business, but also expectations of future revenues and investment...”³

Structure of relations: OC1 – OC2 (3...) – rating agencies – consulting firms (legal and financial consultancy) - MM

4. **Globalization.** In this option, transparency becomes a result of an oil company entering the relations of “comprehensive dependence” with a large number of trans- and over-national organizations and structures..
Structure of relations: OC – trans-national corporations (TNC) – banks – insurance and investment companies – funds.

While reviewing these models from the said standpoints, we can discern the outlines of at least two important problem areas.

First, each of these models has its own intensity of social communication involving oil companies.

Second, models 2 to 4 can be viewed within the framework of social and constructive approaches dwelt upon, in particular, by Alexander Wendt⁴. When putting them into the context of our analysis, we can maintain that in two cases (models 2 and 4) we are dealing with situation of *internalization* of external norms, i.e. their adaptation as guidance for OCs. These two models

³ N. Savina. Selling transparency // Nizhniy Novgorod Business Journal, No 3, February 2006. P.VI.

⁴ Alexander Wendt. Social Theory of International Politics. Cambridge Studies in International Relations, Cambridge University Press, 1999. pp. 266-272.

differ from each other in that in one case the state acts in the capacity of a source of external influence, while in the other this is done by the bodies of “international community”, if we were to use the terminology of Hedley Bull⁵. However, both options (models 2 and 4) share the same structural logic the essence of which consists in the possibility of two “degrees” of internalization.

“*The first degree*” describes situations in which transparency norms are implemented because they have been imposed under the threat of punishment (for example, sanctions, fines or administrative measures). OCs are not motivated by their own interest in transparency, but by the desire to avoid external influence. Of course, the degree of resistance to these norms will be the highest.

“*The second degree of internalization*” is reached when OCs work on the basis of self-interest. Unlike the “first degree”, companies have the opportunity to choose, but use transparency norms instrumentally, i.e. pursuing their economic interests to receive material benefit. This may lead to the conclusion that as soon as the expenditure pertaining to transparency exceeds the benefit from it, OCs will reconsider their use of transparency mechanisms as a market strategy tool.

As for the continuation of this logical chain proposed by A. Wendt in the form of “*the third degree of internalization*”, we think it is the ideal model. It describes situations when the adherence to transparency norms does not result from submission to external requirements or choice of a more rational (for the time being) strategy, but from the recognition of *legitimacy* of these norms. In other words, OCs identify themselves with transparency norms and, therefore, allow these norms to form and constitute themselves (i.e. OCs) in the capacity of subjects of “oil relations”.

Institutional forms of transparency

To see transparency through the prism of institutional analysis, we will use the scheme proposed by V. Radayev⁶.

	Structural relations	Individual (subject – subject)
Formal restrictions	<i>Laws</i>	<i>Contracts</i>
Informal restrictions	<i>Norms</i>	<i>Agreements</i>

Therefore, we can see that depending on institutional peculiarities of a certain situation, transparency can be manifested in different ways. It can assume the form of *laws* (statutory acts). This requires *political will* and an effective system of state institutions capable of controlling the enforcement of state accountability requirements.

If we are dealing with informal obligations which encompass the entire system (in this case – all players of the oil market), they can assume the form of a *norm*. Let’s assume that many options of ensuing transparency developed at the global level are based on a normative nature.

If obligations do not have a structural nature and concern the somehow registered relationship between two or more subjects of oil relations, then such form of transparency can be described as *contractual*. This category may include agreements on cooperation between regional authorities and oil companies.

And finally, if we were to deal with informal relation between a limited number of players of the oil market, then we can describe such form of transparency as *agreement-based*. For instance, an oil company can assume the commitment to share information about its activities with certain media outlets.

⁵ Hedley Bull. *The Anarchical Society. A Study of Order in World Politics*. Third Edition. New York: Columbia University Press, 2002.

⁶ V. Radayev. *Market sociology: towards forming a new direction*, 2003.

Regional case studies

1. The system of “oil relations” in regions includes: a) *subjects* capable of independent decision making⁷; b) *agents* implementing the strategy of subjects; c) *structures* characterized by single financial resources and a tight system of mutual dependence. The so-called *transitional situations* are described separately whereby either the subjects start to play the role of agents (authorities), or agents go beyond the boundaries of their role and claim the characteristics of subjects.

2. The analysis of this environment can be made on the basis of several possible vectors: a) *inter-subject* relations; b) *subject-agent* relations; c) *inter-agent* relations. Naturally, the composition of these couples will look differently in every region, which will provide a good opportunity for a subsequent comparative analysis.

On this stage, we can define two preliminary hypotheses:

A) Inter-subject relations create the biggest opportunities for transparency in comparison with other types of relations because direct interaction between two or more relatively equal and independent actors will make each of them to adapt to the conditions and expectations of the partner.

B) In Nizhniy Novgorod Region, a considerable proportion of inter-subject relations (Lukoil – regional administration) has gone beyond regional frames because they are unfolding with active involvement of federal authorities. In tatarstan, inter-subject relations bind federal authorities with local ones with regard to which oil companies play the role of agent. In Leningrad Region, the overall picture is supplemented by the presence of such an important “collective subject” as the European Union.

⁷ When describing subjects, it has to be taken into consideration that there is a discussion ongoing in theoretical literature about their dual nature: on the one hand, the subject emerges as an outcome of the authorities and cannot appear without their consent. On the other, the subject has the freedom of action. See J. Butler. *Psychics of power*. Kharkov – St. Petersburg, 2002.