

The Changing Governance
of Renewable Natural
Resources in
Northwest Russia

Edited by
Soili Nystén-Haarala



THE CHANGING GOVERNANCE OF RENEWABLE
NATURAL RESOURCES IN NORTHWEST RUSSIA

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Edited by
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Anna-Maija Matilainen graduated in 2000 from the Faculty of Law of the University of Lapland, Finland, with an LLM degree. After graduation she worked for several years as a practicing lawyer and was trained on the bench in the District Court of Kuopio in 2001. In 2003, she started working as a researcher in a number of projects and studying for her doctoral degree at the University of Lapland. She worked in the project 'Governance of Renewable Natural Resources in Northwest Russia' in 2004 and continues to do research in the new project 'Trust in Finnish-Russian Forest Industry Business Relations'. Her article will form part of her PhD studies at the University of Lapland.

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Monica Tennberg is Research Professor at the Arctic Centre of the University of Lapland. She graduated from the University of Helsinki in 1990 with a master's degree in Political Science, and received her licentiate degree (1994) and doctoral degree (1998) in Social Sciences (International Relations) from the University of Lapland. From 1992 to 2004 she worked as a researcher or as an assistant in the Department of Social Studies. Since 2004 she has been Research Professor in Sustainable Development at the Arctic Centre. Her main field of study is international environmental politics in the Arctic. She heads several research projects and supervises PhD students. Her most recent projects deal with indigenous identity politics, adaptation to impacts of climate change and Russian environmental politics.

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Stefan Walter was born in Germany, where he apprenticed in logistics and business management. He earned a Bachelor of Science degree in Geography and Environmental Management at Middlesex University, UK, in 2002 and a master's degree in Social Sciences (Sociology) in 2004 at the University of Lapland in Finland. Since 2004 he has been working towards his doctoral degree in the Department of Social Sciences, University of Lapland, and since 2005 has been a member of the Arctic Graduate School ARKTIS. His thesis will deal with societal capacity for sustainable management of renewable natural resources (forestry) with a focus on economic aspects. He participated in the project 'Governance of Renewable Natural Resources in Northwest Russia' as a researcher (7/2005 – 6/2006) and his article will be part of his doctoral thesis. He is currently a researcher in the Sustainable Development research group at the University of Lapland's Arctic Centre.

Preface

This book is based on the work of an international, multidisciplinary research group of scholars in the fields of human geography, environmental sociology, law, economics and international policy. Our research was made possible by the 'Russia in Flux' programme, which ran from 2004 to 2007 and was funded by the Academy of Finland (grant number 203964). The Academy also provided international exchange scholarships for members of the group, enabling them to conduct interviews and to create and maintain contacts with Russian universities, research units and cooperation partners.

The contributions in this volume began as cooperation between researchers from the Universities of Lapland and Joensuu and their international partners. The Russian researchers in the project come from the Centre for Independent Social Research in St. Petersburg and the Kola Science Centre of the Russian Academy of Sciences in Apatity.

Numerous people have contributed to the writing process of the book; acknowledging all of them here by name would produce too lengthy a list. Several Russian partners helped in arranging interviews and sometimes even participated in interviewing. Many scholars participated in the project seminars and provided fruitful comments on our ideas or read and commented on drafts of the articles. Our sincerest thanks go to all those who have played a part in creating this volume. Any errors, of course, remain the authors' responsibility.

Joensuu, 17 December, 2008

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List of Abbreviations

AG	Aktiengesellschaft (German joint-stock company)
BEAC	Barents Euro-Arctic Council
CBC	Centre for Biodiversity Conservation
CBD	Convention on Biological Diversity
CBSS	Council of the Baltic Sea States
EEZ	Exclusive Economic Zone
ENA FLEG	Europe and North Asia Forest Law Enforcement and Governance
ENGO	Environmental non-governmental organization
EU	European Union
FFA	Federal Fisheries Agency
FSC	Forest Stewardship Council (certificate system)
FZ	Federal'nyi zakon (Russian Federal Law, act of parliament)
GmbH	Gesellschaft mit beschränkter Haftung (German limited liability company)
IES	Institute for Environment and Sustainability
IFF	Forum on Forests (now UNFF)
IMF	International Monetary Fund
IPF	Intergovernmental Panel on Forests (now UNFF)
KSC	Kola Science Centre
MMBI	Murmansk Marine Biological Institute
MNR	Ministry of Natural Resources (of the Russian Federation)
NDEP	Northern Dimension Environmental Partnership
NEFCO	Nordic Environmental Finance Corporation
NGO	Non-governmental organization
NIBR	Norwegian Institute for Urban and Regional Research
NPM	New Public Management
OAO	Otkrytoe aktsionernoe obshchestvo (Russian open joint-stock company)
OECD	Organization for Economic Cooperation and Development

PINRO	Polar Research Institute of Marine Fisheries and Oceanography
RAS	Russian Academy of Sciences
RF	Russian Federation
RNR	Renewable natural resources
SEU	Socio-Ecological Union
SFM	Sustainable forest management
TAC	Total available catches
TACIS	Technical Assistance to the Commonwealth of Independent States and Mongolia (EU Programme)
TC	Transnational corporation
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFF	United Nations Forum on Forests
US	United States (of America)
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization
WWF	World Wide Fund for Nature (formerly World Wildlife Fund)



Figure I.1 Map of Northwest Russia

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Chapter 1

Introduction

Soili Nystén-Haarala

Research focus

This book is based on the work of an international, multidisciplinary research group studying transition in Russia. The focus is on the adjustment of local communities and enterprises to institutional changes, as well as their attempts to govern that development. Of particular interest is the governance of forest and fishery resources in Northwest Russia. The local view is approached empirically, with data gathered through interviews of local authorities, managers and people involved in the governance and use of natural resources. These ‘empirical local views’ are examined against the changes in official institutions on the national level and in the global arena in order to elucidate the interplay of official and unofficial institutions.

Northwest Russia

Northwest Russia can be understood geographically, administratively, politically or economically. Geographically the European part of Russia bordering Fennoscandia and the Baltic Sea has been called Northwest Russia. In Russia itself, the term ‘Northwest Russia’ was seldom used and did not mean anything in particular before President Putin’s decree in 2000 creating seven new administrative areas (*okrug*) under presidential administration.¹ One of these areas was the part of Northwest Russian covering the Karelian Republic, the Murmansk, Arkhangel’sk, Komi, Leningrad, Novgorod, Vologda, Pskov and Kaliningrad Regions and the city of St. Petersburg (see the map at the beginning of the book).

The Russian Constitution divides the Federation into 89 ‘subjects’ (*sub”ekt federatsii*), which we refer to as ‘regions’ in this volume. According to the Constitution, the regions are equal. However, they comprise different subdivisions: republics (*respublika*), regions (*oblast’*), territories (*kray*), cities of federal importance (Moscow and St. Petersburg), (the Jewish) autonomous region

¹ These areas were placed under administration by the prime minister when the new president, D. Medvedev, appointed Putin as his prime minister.

(*avtonomnaya oblast'*) and autonomous areas (*avtonomnyi okrug*). Autonomous areas are often situated within the borders of another region.²

In this book we use the term 'Northwest Russia' in its geographical meaning, focusing mostly on the areas bordering Fennoscandia and the Baltic Sea. Economically this area is quite heterogeneous. The forest economy is important in most parts of the region. Russia has 809 million hectares of forests – more than one-fifth of the forested area in the world. However, in a country with huge resources of oil, natural gas and different minerals, including diamonds, the forests have not been the natural resources of greatest interest to the federal government. Murmansk is less dependent on forestry and more dependent on heavy industry (the mining, metal and machinery industries), sea transportation and large-scale fishery. The Karelian Republic and the Arkhangel'sk Region are both covered by forests and dependent on them. Arkhangel'sk, however, also has a great deal of machinery and other heavy industry, as well as transportation and sea fishery, whereas Karelia, while it also has mining, metal and machinery industry, is mostly dependent on its forest resources and forest industry. The Stockman oil field in the Barents Sea and the future pipeline to Murmansk harbour will also bring the oil industry into the area. At present, industry in Arkhangel'sk, Karelia and Murmansk is quite dependent on coal in this oil and natural gas rich country.

The interdependence of different parts of Northwest Russia is quite weak compared to each region's political and economic dependence on the federal centre (Moscow). The economic influence of St. Petersburg is important, especially in the surrounding Leningrad region, which has attracted a huge amount of international investment, for example, the Svetogorsk pulp and paper mill (International Paper), a Ford Motors car factory and a Nokia Tyres plant. The reasons for the amount of international investment can be found both in the region's location near St. Petersburg and in its favourable investment policy. The economic importance of St. Petersburg is growing also further away in the Karelian Republic and Arkhangel'sk Region. The economic growth of the city of St. Petersburg is certainly unique in Northwest Russia, but it falls outside the scope of the book.

The Research Process

The authors of the book comprise an international multidisciplinary research whose work was financed by the Academy of Finland's programme 'Russia in Flux' (2004–2007; number 203964). The common theoretical framework of the

2 President Putin started a process to reduce the number of regions (subjects). This currently affects several autonomous areas, which are to be made part of the regions (oblast or republic) within which they are located. Since all of the regions are enumerated in the Constitution, such changes require referendums in the regions concerned as well a law which has to be passed by a two-thirds majority in both chambers of the Federal Assembly. Two such laws have already been passed.

group, which consists of scholars in the fields of human geography, environmental sociology, law, economics and international policy from Finland, Russia, Sweden and Germany, is based in Douglass C. North's concept of path dependency. The group emphasizes the path-shaping elements associated with path dependency rather than its more deterministic elements in order to stress the active influence of and interplay among different interest groups. The project was directed by Soili Nystén-Haarala, editor of the present volume.

The empirical data for the research, mainly interviews, were collected in the Karelian Republic, the Arkhangel'sk, Murmansk, Vologda and Leningrad Regions and in the cities of Moscow and St. Petersburg between the years 2004 and 2007. Maria Tysiachniouk, Antonina Kulyasova and Ivan Kulyasov collected most of the empirical data. Some interview trips into remote fishing villages of the Arkhangel'sk Region and forestry locations in the Vologda Region took several weeks or even months. Soili Nystén-Haarala and Anna-Maija Matilainen conducted interviews in Arkhangel'sk, Murmansk, Petrozavodsk, Kondopoga and Segezha. Larissa Riabova and Lyudmila Ivanova collected data in Murmansk and municipalities in the Murmansk region. The interviewees comprised federal, regional or local authorities, company managers, workers, local inhabitants and NGO members, all of whom were involved in the governance and use of natural resources. Monica Tennberg's interviews, conducted with the assistance of Tamara Semenova from the Russian Institute of Cultural and Natural Heritage of the Russian Academy of Sciences, Svetlana Agarkova from Petrozavodsk State University, Nadezhda Kharlampieva from St. Petersburg State University, Larissa Riabova and Lyudmila Ivanova from Kola Science Center of the Russian Academy of Sciences and Antonina Kulyasova from the Center for Independent Social Research, focused on people who had participated in international environmental projects in Northwest Russia. The interview locations are shown on the map at the front of the book.

The research group have written the contributions in close cooperation. The first planning meeting was held in Rovaniemi, Finland, in spring 2004. The drafts were commented on in seminars held in September 2005 in St. Petersburg, in spring 2006 at the Pyhäunturi resort in northern Finland and in September 2006 in St. Petersburg.

Structure of the Book

National Policies and the Transition to a Market Economy

The book consists of three different parts. It starts with an analysis of national policies and their impact on Russia's transition to a market economy, with a particular focus on how the institutional framework has developed. Chapter 2 is an introduction to the theme of the book and analyzes general tendencies in the transformation of Russian institutions and the interest groups that have

endeavoured to influence the development of those institutions. The contribution also introduces the concepts of governance and path dependency. It analyzes and questions the path dependency of the developments studied and briefly evaluates the theoretical approaches of institutional economics.

In Chapter 3, researcher Stefan Walter analyzes fiscal and monetary policies and their effect on economic development in Russia. His focus on the trust-maintaining function of macroeconomic policy helps illuminate the mutual dependency of good economic policy and forest resource governance. Combining economics and sociology, Mr Walter applies Niklas Luhmann's theory of social systems. The chapter is a part of Mr Walter's doctoral studies in sociology at the University of Lapland.

In Chapter 4, researcher Minna Pappila analyzes the drafting process of the Russian Federal Forest Code which came into force at the beginning of 2007. She focuses on sustainable development and the difficulty of its integration into the new code. In spite of severe criticism by environmental NGOs of the drafting process and the content of the Forest Code, the legislation can be regarded as reflecting the development of democratic discussion and the participation of civil society in law drafting. Ms Pappila's contribution is a part of her doctoral thesis in the Faculty of Law at the University of Turku.

Dr Larissa Riabova and Dr Lyudmila Ivanova write about the painful changes in fishery management in Northwest Russia in Chapter 5. The focus is on the development of the governance framework, which in Russia, too, is proceeding from government to governance. The authors claim that the power struggle between the federal and regional levels, as well as the emergence of municipal self-government, is the starting point for decentralization and the first sign of a future development towards multilevel governance in Russia, where the dominant role of the state has deep historical roots.

In Chapter 6, researcher Anna-Maija Matilainen describes the takeover struggles for companies within the forest industry. She analyzes how company law in the Western market economy has been used – or, rather, misused – in a creative way in the struggle to gain ownership of companies. The legal analysis of hostile takeovers reveals an economic and business environment that is peculiar to Russia; Ms Matilainen examines the terms on which this environment operates with reference to both her own interviews and articles in local and national newspapers reporting takeovers. Ms Matilainen's contribution is part of her doctoral studies in the Faculty of Law at the University of Lapland.

Case Studies on Different Aspects of Governance

The second part of the book consists of case studies illustrating different aspects of governance. In Chapter 7, Dr Juha Kotilainen, Dr Antonina Kulyasova and researchers Ivan Kulyasov and Svetlana Pchelkina focus on the interaction of different interest groups in forest governance, which officially is strictly governed by the state. The empirical data are largely based on numerous interviews of local

managers of logging companies, directors of municipalities and workers and residents of logging settlements in the Arkhangel'sk and Vologda Regions and the Karelian Republic. The chapter illustrates an interesting process of hybrid governance in the form of interaction between official and unofficial institutions.

Professors Soili Nystén-Haarala and Jarmo Kortelainen of the University of Joensuu analyze in Chapter 8 how trust is constructed and maintained in Russian mill towns. The chapter compares different forms of trust building and governing relations between pulp and paper mills and their surrounding communities. Community relations are important in the social and economic circumstances of Russian mill towns, where the mill management faces challenges in balancing between economic and social requirements.

In Chapter 9, Dr Maria Tysiachniouk analyzes how Greenpeace caused and used conflict in the Karelian Republic by informing Western European consumers of the logging of old-growth forests and lobbying for a project that sought to establish a national park in the republic. The conflict and its results are studied based on interviews of local residents who make their living from forest resources in one way or another and representatives of the environmental movement. The contribution analyzes how civil society may break into the field of traditional state governance and uses international consumer boycotts as weapons to achieve its own goals in nature protection.

International and Global Impacts on National Environmental Policy and Local Forestry and Fishery

The third part of the book raises the discussion from empirical case studies to the international level, focusing on international and global impacts on Russian environmental policy. Both contributions are based on analyses of interviews.

Chapter 10 is a collaborative contribution written by Associate Professor Carina Keskitalo and researcher Antonina Kulyasova. Dr Keskitalo has previously done research on the vulnerability of forest resources, fisheries and reindeer herding to processes of globalization and climate change in the Scandinavian north. Ms Kulyasova conducted interviews in fishing villages and forest localities of Northwest Russia. Their research shows the similarity of problems in northern areas that are dependent on renewable natural resources as well as a number of differences, caused by the earlier socialist economy in Russia and the transition to a market economy.

In Chapter 11, Professor Monica Tennberg focuses on international environmental co-operation in Northwest Russia. She interviewed both Russian and Finnish participants in environmental projects financed by the European Union and analyzes whether and how they have managed to build local capacity. The chapter describes how participants from different sides of the border experienced cooperation and how they viewed the results of the projects not only as governance but also as capacity building for the project participants.

Chapters 3 and 8 were already written in 2006. Most of the authors have worked on their contributions and updated them to May 2008. In some cases, developments in the forestry and fishery sectors of Northwest Russia in June 2008 have been included as well. Political developments following the parliamentary (Duma) elections of 2007 and the presidential elections of March 2008 have not been analyzed in this volume.

PART I
National Policies and a Transition
to a Market Economy

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Chapter 2

Institutions, Interest Groups and Governance of Natural Resources in Russia

Soili Nystén-Haarala and Juha Kotilainen

Introduction

The collapse of the Soviet Union was a profound change – one that reshaped the world both politically and economically in the last decades of the twentieth century. Mikhail Gorbachev's *perestroika* and *glasnost* aimed at changing the planned economy gradually under the rule of the Communist Party, while the reformers – with Boris Yeltsin as their figurehead – wanted to introduce a market economy, democracy and the rule of law immediately through sweeping changes. The demise of the Soviet Union opened up a new path for the development of Russia and started a transition process that has seen an interesting interplay of global and local impacts on Russian national, regional and local institutions.

In the first shock of rapid privatization, marked by the disappearance of state property and the shaking of the legal order, the state lost its traditionally overwhelming power, a new business elite emerged and foreign governments and international organizations started to aid and advise the Russian government. The economic and political ideals that dominated at the time affected the Russian transition, but they also encountered Russian institutions imbued with totally different ideals, working methods and mindsets than their Western counterparts. Old and new mixed in a unique way. After about twenty years of transition, many scholars call the outcome of this transformation process 'Russian democracy', 'the Russian market economy' and 'the Russian rule of law' (see e.g. Oleinik 2001; Sutela 2003). Russia may not even be heading towards an ideal Western model, but producing its own variant with a strong Russian flavour.

The first Russian reformers and their Western advisers paid no attention at all to institutions (see e.g. Åslund 1995 and Sachs 1993), because the then dominant neo-classical economics dealt only with stable systems without analysing change (North 1990). According to North,

[i]nstitutions are the rules of the game in a society, or more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change (p. 3).

Russia and other transition economies have been an interesting laboratory for understanding how significant a role institutions play in change.

Legal studies, which contribute to the change of official institutions, are also based on a static approach to the existing legal system and see change in technical terms, focusing only on the legal framework and the legal system. However, the new institutionalism asserts that official institutions (formal constraints), such as legislation, economic rules or formal contracts, can technically be changed quite quickly, but unofficial institutions (informal constraints), such as attitudes, working habits and behavioural rules, change much more slowly and prevent official institutions from changing in the planned, 'ideal' direction. One constant challenge in the Russian transition has been that unofficial, informal institutions do not support the official ones. According to institutional economics the interplay of formal and informal rules is the key to understanding economic development. (North 1990)

In this chapter we present a framework of institutions and interest groups and discuss their interplay, which illuminates the decisions and solutions made at the local level in Northwest Russia. We first present governance and path dependency, the main concepts applied by the authors of this volume in their empirical studies of transformation at the local level. Secondly, we present the main actors and interest groups: the state, municipalities, private companies and NGOs with the framework of official institutions. Thirdly, we show how the interplay of official and unofficial institutions is developing and what role different interest groups play in this development.

The Main Concepts

Governance

Governance, although derived from the word 'govern', is a broad and multidisciplinary concept, implying something beyond government administration. Kersbergen and van Waarden (2004) have classified nine different approaches to and meanings of governance, giving a complex view of the multidisciplinary studies of governance. We present them all here briefly, because the authors of this volume, who represent a variety of disciplines, use the concept in several of these meanings.

Economic governance is usually connected with private governance and often seen as a mechanism that firms choose in order to save transaction costs and survive on the market (Williamson 1985). As a concept connected with institutional economics, economic governance has been developed within different disciplines, including economic history, economic sociology and political economy. Approaches based on economic governance view markets as being created and maintained by institutions. Governments are regarded as only one source of institutions, and private governance is seen as a more effective way to solve problems than state governance. This way of thinking can be traced back to the US understanding,