THE CHANGING GOVERNANCE OF RENEWABLE NATURAL RESOURCES IN NORTHWEST RUSSIA
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The Changing Governance of Renewable Natural Resources in Northwest Russia

Edited by
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University of Joensuu, Finland

ASHGATE
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Lyudmila Ivanova works as Senior Researcher and Head of the International Department of the Institute of Economics at the Kola Science Centre of the Russian Academy of Sciences in Apatity. She graduated from the Plekhanov Mining Institute in Leningrad in 1987 with a master’s degree in the economics and organization of geological works. She has worked since that time as a researcher at the Kola Science Centre. Her PhD (Candidate of Sciences), completed in 2001, dealt with economics, planning and management of the economy. She has worked as a visiting researcher in Norway and Austria. Her main field of interest is forest management.

E. Carina H. Keskitalo works as Associate Professor of Political Sciences at the Department of Social and Economic Geography at the University of Umeå, Sweden. Ms Keskitalo has participated in several research projects at the Finnish and European levels, and is currently leading Swedish-funded projects on climate change adaptation in forest systems and on national adaptation to climate change. Her main areas of interest are international, northern and arctic cooperation and the impact of globalization and climate change on the regional level.

Jarmo Kortelainen works as Professor and Head of the Department of Geography at the University of Joensuu. He graduated in 1986 from the same department with a master’s degree in human geography. He completed his licentiate degree in 1991 and doctorate in 1996. He has worked in a variety of research and teaching positions since 1985 and participated in a number of research projects. Mr Kortelainen’s main research interests are mill communities and border studies.

Juha Kotilainen Dr. Juha Kotilainen is Senior Researcher at the Faculty of Social Sciences and Regional Studies at the University of Joensuu, Finland. With a background in human geography, his research interests include the analysis of the role of environmental issues in the transformation of the forest industrial sector, local developments in peripheral regions in Finland and Russia and the local perspective on cross-border interaction, one case study being the EU’s external border between Finland and Russia. He has published in the journals Environmental Politics, Eurasian Geography and Economics and Journal of Borderland Studies, and recently edited the book (with Jarmo Kortelainen) Contested Environments and Investments in Russian Woodland Communities, published by Kikimora Publications. He is currently involved in the effort to merge the faculties of social sciences at the Universities of Joensuu and Kuopio (Finland), with a special focus on developing research on the topic of post-industrial challenges for resource-based communities.
Ivan P. Kulyasov is a researcher at the Centre for Independent Social Research in St. Petersburg. He graduated in 1991 from St. Petersburg State Medical Academy with a master’s degree in Medical Science. In 1997 he started to study ecological problems and social sciences and to work as a researcher at the Centre for Independent Social Research. Since 2002 he has participated in the postgraduate programme of the Department of Sociology at St. Petersburg State University. Mr Kulyasov has worked as a researcher in numerous international projects dealing with environmental issues and civil society. He has done a great deal of fieldwork in Russia and has thirty-eight publications.

Antonina A. Kulyasova is a researcher at the Centre for Independent Social Research in St. Petersburg. She graduated with a degree in Economics from St. Petersburg State University in 1991. In 2001 she received her PhD in Economics (Theoretical and Environmental Economics) from St. Petersburg State University. Since 1997, Ms Kulyasova has worked as a researcher and coordinator of the group for environmental research at the Centre for Independent Social Research. She has taken several international courses and worked in the United States and Finland on research grants. She has participated in numerous international research projects and has thirty-nine publications.

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.

Soili Nystén-Haarala has been Professor of Civil Law in the Faculty of Law, Economics and Business Administration at the University of Joensuu since 2004 (tenured as of 2006). She completed her doctorate in the Faculty of Law of the University of Lapland in 1998. She has held a number of different positions at the University of Vaasa and University of Lapland. She has also worked as a visiting fellow in the Forestry Project at IIASA (International Institute of Applied Systems Analysis) and as a visiting professor at Umeå University. Ms Nystén-Haarala has led several research projects since 2003. Her main field of interest is contract law, international trade law and Russian law. In contract law she focuses on ‘contracting’, the use of contracts in business practice. She has publications on Russian law and transition as well as on contracting and proactive law. Among other projects, she has headed ‘Governance of Renewable Natural Resources’, in which all of the other authors have participated. Work in this field continues with the new project ‘Trust in Finnish-Russian Forest Industry Business Relations’, which is financed by the Academy of Finland.
Minna Pappila works as a researcher in the project ‘Trust in Finnish-Russian Forest Industry Relations’ at the University of Joensuu. She graduated in 1998 from the Faculty of Law of the University of Turku and received her licentiate degree in 2005. She has taken courses in environmental studies and participated in international study programmes. Her previous publications have focused on legislation, forestry and protection of biodiversity in Finland and Russia. Her article in this volume will form part of her doctoral dissertation at the University of Turku.

Svetlana S. Pchelkina works as a researcher at the Centre for Independent Social Research in St. Petersburg. She graduated from the Department of Journalism at St. Petersburg State University with a master’s degree in 1989. Her principal academic interests are the environmental movement in Russia, forest governance and non-state governance of natural resources. She has participated in a number of international research projects.

Larissa Riabova works as Head of the Department of Social Politics in the North of the Institute for Economic Studies of the Kola Science Centre of the Russian Academy of Sciences. She graduated from Kiev National Economy Institute with a master’s degree in 1982 and received her PhD (Candidate of Sciences) at the Leningrad Institute of Economy and Finance in 1989. She has held a variety of research positions at the Kola Science Centre since 1982 and worked as visiting researcher at the University of Lapland, Finland, University of Umeå, Sweden, and University of Tromso, Norway. She has participated in several international research projects and has an extensive list of publications. Her main field of interest is the economic and social impact of natural resource governance, in particular the governance of fisheries.

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.

Maria Tysiachniouk works as a researcher and the chair of the environmental sociology group at the Centre for Independent Social Research in St. Petersburg. She has a degree in Biology from St. Petersburg State University (1978), a master’s degree in Environmental Studies from Bard College, New York (1998), a PhD
(Candidate of Sciences) in Biology from the Russian Academy of Sciences (1984) and is a PhD candidate in Sociology at Wageningen University, the Netherlands. Ms Tysiachniouk has taught courses in the United States at the Institute of Policy Studies at Johns Hopkins University and at Dickinson College, Townson University and Ramapo College. In Europe, she has taught at the Freiburg School of Forestry, Aleksanteri Institute and the University of Joensuu. She has done research in the United States on many fellowships, for example awards from the Fulbright Program, IREX and the Kennan Institute of Advanced Russian Studies. She has participated in numerous international research projects and has an extensive list of publications. Forest certification is her most recent research interest. Based on her research findings she also provides consulting services to logging companies and advises them on the social aspects of certification. She is currently a member of the Board of Directors of the International Sociological Association and a member of many other professional societies.

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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<tr>
<td>AG</td>
<td>Aktiengesellschaft (German joint-stock company)</td>
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<tr>
<td>BEAC</td>
<td>Barents Euro-Arctic Council</td>
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<td>CBC</td>
<td>Centre for Biodiversity Conservation</td>
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<td>CBD</td>
<td>Convention on Biological Diversity</td>
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<td>CBSS</td>
<td>Council of the Baltic Sea States</td>
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<td>EEZ</td>
<td>Exclusive Economic Zone</td>
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<td>ENA FLEG</td>
<td>Europe and North Asia Forest Law Enforcement and Governance</td>
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<td>ENGO</td>
<td>Environmental non-governmental organization</td>
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<td>EU</td>
<td>European Union</td>
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<td>FFA</td>
<td>Federal Fisheries Agency</td>
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<td>FSC</td>
<td>Forest Stewardship Council (certificate system)</td>
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<td>FZ</td>
<td>Federal’nyi zakon (Russian Federal Law, act of parliament)</td>
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<tr>
<td>GmbH</td>
<td>Gesellschaft mit beschränkter Haftung (German limited liability company)</td>
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<td>IES</td>
<td>Institute for Environment and Sustainability</td>
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<td>IFF</td>
<td>Forum on Forests (now UNFF)</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPF</td>
<td>Intergovernmental Panel on Forests (now UNFF)</td>
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<tr>
<td>KSC</td>
<td>Kola Science Centre</td>
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<tr>
<td>MMBI</td>
<td>Murmansk Marine Biological Institute</td>
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<td>MNR</td>
<td>Ministry of Natural Resources (of the Russian Federation)</td>
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<td>NDEP</td>
<td>Northern Dimension Environmental Partnership</td>
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<td>NEFCO</td>
<td>Nordic Environmental Finance Corporation</td>
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<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
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<tr>
<td>NIBR</td>
<td>Norwegian Institute for Urban and Regional Research</td>
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<td>NPM</td>
<td>New Public Management</td>
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<tr>
<td>OAO</td>
<td>Otkrytoe aktsionernoe obshchestvo (Russian open joint-stock company)</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>Abbr.</td>
<td>Full Form</td>
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<tr>
<td>PINRO</td>
<td>Polar Research Institute of Marine Fisheries and Oceanography</td>
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<td>RAS</td>
<td>Russian Academy of Sciences</td>
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<td>RF</td>
<td>Russian Federation</td>
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<td>RNR</td>
<td>Renewable natural resources</td>
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<td>SEU</td>
<td>Socio-Ecological Union</td>
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<tr>
<td>SFM</td>
<td>Sustainable forest management</td>
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<tr>
<td>TAC</td>
<td>Total available catches</td>
</tr>
<tr>
<td>TACIS</td>
<td>Technical Assistance to the Commonwealth of Independent States and Mongolia (EU Programme)</td>
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<tr>
<td>TC</td>
<td>Transnational corporation</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
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<tr>
<td>UNFF</td>
<td>United Nations Forum on Forests</td>
</tr>
<tr>
<td>US</td>
<td>United States (of America)</td>
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<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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<tr>
<td>WWF</td>
<td>World Wide Fund for Nature (formerly World Wildlife Fund)</td>
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Figure I.I  Map of Northwest Russia
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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 Kalingrad 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 (kraj), 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 (avtonomyi 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 Arkhangelsk, 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 Arkhangelsk Region and forestry locations in the Vologda Region took several weeks or even months. Soili Nystén-Haarala and Anna-Maija Matilainen conducted interviews in Arkhangelsk, 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 Pyhätunturi 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,
inherited from colonial times, that the role of the state should be minimal and that
the state is not to be trusted (see e.g. Nozick 1974).

In Russia private governance could be a path-breaking way out of the
overwhelming but ineffective state governance that has a long and strong tradition
in the country. However, the attitude towards the role of the state is very far from
that of Anglo-American political libertarianism. The reformers of the beginning of
the 1990s were convinced of the need to diminish the role of the state, but since the
beginning of Vladimir Putin’s presidency the Russian political elite has become
more interested in restoring a stronger role for state governance and convinced of
the need for a strong state, which for them represents order.

In the international arena, organizations such as the World Bank or the IMF
have started to use the concept good governance to refer to both government and
non-government economic policy in their reports. Good governance is promoted
by these organizations and this often means government implementing neo-liberal
policy by reducing public spending, privatizing state enterprises and the banking
sector (the Washington consensus)\(^1\) or, nowadays, also by promoting greater
transparency and accountability in public and corporate affairs. After the scandals
with misuse of financial aid in Russia,\(^2\) these organizations have given combating
corruption a very prominent place on their agendas. The OECD has propagated good
governance by comparing best practices in key areas such as public management,
business–government relations and social policy. In the beginning of the Russian
transition, the World Bank and the IMF were quite influential and could direct
Russian economic policy through the conditions for international economic aid;
nowadays, however, Russia’s official policy is to restore the national pride of the
collapsed superpower, distance the country from international organizations and
foreign governments and make independent decisions.

The term ‘good governance’ is also used in the private sector in the meaning
of corporate governance, emphasizing accountability and the transparency of the
actions of management towards shareholders or even a broader circle of stakeholders.
The OECD has established a set of non-binding principles of corporate governance
that represents a common basis that OECD member countries consider essential
for the development of good governance practice (www.oecd.org/daf/governance/
principles.htm). Good corporate governance is assumed to benefit government in
the form of increasing international investments. In Russia, corporate governance is
seen from another perspective. Potential conflicts of interest between shareholders
and management are not the most important issue for Russian companies; what is
crucial are social relations with the state, the local community and their workers.
Transparency is not one of the main virtues of Russian markets, where harsh
means to gain profits and to beat competitors are rather common. According to

\(^1\) For criticism of the Washington consensus, see Stiglitz 2002.

\(^2\) Stiglitz 2002, 133–165. Before the aid programmes for post-socialist countries,
misuse of financial aid was ignored or at least not discussed openly in international
organizations.