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Tuesday, March 16, 2004

Volume 1 Issue 17

Russian Politics: The Illusion of Change



Russian President Vladimir Putin and his wife Lyudmila leave a Moscow polling station after casting their votes, Sunday, 14 March 2004. Voter apathy was a concern leading up to Russia's election day, but the popular vote easily reached the 50 percent threshold needed to legitimize the election results.
Photo credit: AP/Wide World Photos

Big changes are underway in Russian politics -- or are they? Yes the government has changed. There's a new Prime Minister, and only one rather than six deputy prime ministers. The unruly 23 government ministries have been trimmed to a more manageable 14 super ministries. New faces have been recalled from Brussels, New York and Perm to lead important posts, like Prime Minister, Foreign Minister and Natural Resources Minister.

But in Russian politics, the old saying, *"the more things change, the more they stay the same"* is apt. As President Putin begins his second term, with a voter mandate of 71 percent and nearly absolute consolidation of power in his hands, the status quo will prevail. Continued stability and economic progress will no doubt be the hallmark of Putin's second term. But so too could be greater limitations on freedom of speech and free press, as well as more state control of the natural resource sector.

"Without an articulated vision or policy platform for the country, President Putin enters office with a clear mandate and broad support of the people,

The Second Term: President Putin Got What He Hoped For

The PBN Company's Analysis of Election Results

[\[click here for full story\]](#)

What It All Means: Russia's New Government

Ministries Decreased from 23 to 14

[\[click here for full story\]](#)

A Profile of the New Russian Cabinet

Old Faces & New Players

[\[click here for full story\]](#)

Lobbying: Russian-Style

An AmCham Article by Peter Necarsulmer

[\[click here for full story\]](#)

News from PBN Worldwide

Two Summits and Two New Clients

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[Issue 16](#)

February 2, 2004

[Issue 15](#)

December 8, 2003

[Issue 14](#)

September 25, 2003

[Issue 13](#)

August 21, 2003

the politicians and even many pundits," says PBN's Chairman & CEO Peter B. Necarsulmer. "But with such a mandate also comes tremendous responsibility. If progress in solving the quality-of-life concerns of the average Russian is not made, there is but one person to turn to for answers: Mr. Putin."

In this edition of Access PBN, The PBN Company offers our analysis of the likely direction of President Putin's second term as well as an overview of the newly reorganized Russian government, including profiles of some of the new government leaders. It also includes a reprint of an article from the American Chamber of Commerce in Russia by PBN Chairman Peter B. Necarsulmer, comparing lobbying practices in Russia and the West.

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[Issue 12](#)

June 10, 2003

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The Second Term: President Putin Got What He Hoped For

The oligarchs are back to business (and only business). Once-rebellious regional leaders are outwardly content. The Federation Council and the Duma are under a powerful spell. The media is silenced. And the people are apathetic and happy.

So begins Vladimir Putin's second term as President of the Russian Federation, after 71 percent of Russian voters said "da" to four more years of his leadership on the 14th of March. The election results were not a surprise, and neither is the likely direction and focus of Putin's second term.

The status quo, but with a heavy hand, is perhaps the best way to describe what is expected in President Putin's second term. Economic reform and liberalization are expected to continue, which is good. But so too will be the consolidation of the Kremlin's power, which is not so good. In the past four years, Putin has systematically amassed almost absolute power, neutering every other institution in the process. Today, there is literally no countervailing point of view — it's Putin's and Putin's alone.

But the majority of citizens are happy and content. Prosperity, while still a reality for only a relative few, seems more attainable for more Russians than ever before. Stability, while boring, is a welcomed relief after a decade of turmoil, disorder and uncertainty of the pre-Putin regime. That's what Putin offered Russian voters in this election cycle — a predictable, strong and almost omnipotent government — and that's clearly what they want.

In his first term, President Putin stabilized Russia's economy, modernized the tax system and reformed property rights. Now he has his sights on doubling the economy in 10 years, improving the conditions of Russians living in poverty and weaning the country's dependence on oil and natural resources. Providing a helping hand to small business and establishing a modern banking system are among other Putin priorities.

Getting rid of Mikhail Kasyanov, a prime minister not in his pocket, and replacing him with Mikhail Fradkov, one who is, was Putin's latest step

[Return to Front Page](#)



Newly re-elected President Vladimir Putin accepts congratulations on his overwhelming victory. With all of the votes tallied, and despite an almost non-existent campaign, President Putin received 71.2 percent of the vote.
Photo credit: AP/Wide World Photos

toward consolidating his power. The near unanimous acceptance of Fradkov as Prime Minister is yet another example of Putin's stronghold on the government.

Fradkov is widely seen as a good soldier rather than his own man, unlike Kasyanov. He is expected to be adept at moving President Putin's legislative agenda forward and, possibly, to strengthen the government's uneven crackdown on corruption.

Fradkov's selection is also an example of Putin's uncanny political prowess. Kremlin insiders like Fradkov because of his strong security background and preference for greater state control. But economic reformers are happy too, because of Fradkov's economic and trade experience and the proven economic reform record of his only Deputy Prime Minister, Alexander Zhukov.

Fradkov is expected to be loyal and not overly ambitious. He will stay out of the limelight. And, when the time comes, he will quietly step aside to make way for Putin's hand-picked successor.

However, consolidation of power also comes at substantial risk for President Putin. Without independent forces and divergent visions for the country, responsibility for moving the country forward is firmly centered on one person — Vladimir Vladimirovich Putin. Be careful, Vladimir Vladimirovich, you may have gotten exactly what you hoped for.



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What It All Means: Russia's New Government

On March 9, just five days before his landslide election, Russian President Vladimir Putin announced a major restructuring of his government. In a televised address to the nation, President Putin unveiled the new government structure and leaders, saying that the changes will end government conflict of interest and root out corruption.

The most substantial restructuring is the reduction of ministries from 23 to 14. The other former ministries have been made into federal services and put under the new ministries. For example, three former ministries -- Transportation, Railways and Communications -- have been combined into one Ministry of Transportation and Communications. Viktor Khristenko lost his old position as Deputy Prime Minister, but was appointed Energy and Industry Minister, with oversight of not only oil and gas but also construction, arms production and nuclear power industries.

But the restructuring has not in reality shrunk the size of the federal government. The number of federal institutions has actually grown from 56 in the old government structure to 76 in the new.

"The new government is generating discussion and speculation among the political elite, but it really has little impact on the average Russian citizen," says PBN's lead lobbyist Alexander Shelemekh. "One can only hope that, in the long run, the current reshuffle of personalities will be followed not merely by declarations of priorities, but rather by clear and meaningful practical steps to change the life of the average Russian for the better."

The latest transformation of the Russian government began with the firing of Prime Minister Mikhail Kasyanov in late February and the appointment of his replacement, Mikhail Fradkov, on March 1. Fradkov is a little known, but widely respected, government technocrat. He was a former head of the country's tax police and most recently Russia's Ambassador to the European Union in Brussels. His is also a former trade minister and is likely to make Russia's admittance to the World Trade Organization one of his personal priorities. (Russia is the only

[Return to Front Page](#)



Mikhail Fradkov is Russia's newly-appointed Prime Minister. He assumed the post on 1 March 2004, after Mikhail Kasyanov was removed by President Putin.

Photo credit: AP/Wide World Photos

major economy not a member of the WTO.) Unlike others in Putin's inner circle, he is not a St. Petersburg -- he comes from Samara.

Prime Minister Fradkov will have direct oversight of a new financial super-agency. The Federal Financial Markets Service will report directly to Fradkov and will supervise the auditing industry, private pension funds and stock exchanges. It will also inherit the financial market functions of the defunct Anti-Monopoly Ministry.

There is also only one Deputy Prime Minister in the new government as opposed to the six under the old. Alexander Zhukov, as sole Deputy PM, is responsible for implementing many of the new government reforms. At the first meeting of the new Cabinet last Friday, the new Deputy PM briefed ministers for 45 minutes on how the reorganization would be implemented. Harvard-educated, soft-spoken and fluent in English, Zhukov is a proponent of Western-backed economic reforms.

The reorganization is also thought to be the brainchild of Dmitry Kozak, the new chief of staff of the cabinet. Kozak held this position in 1999, when Putin recruited him from St. Petersburg where he was a practicing lawyer.

To the relief of most foreign investors and capital markets participants, Putin's economic team remains largely unchanged. Alexei Kudrin kept his post as Finance Minister and also gains control over the Tax Ministry. German Gref stays as Minister for Economic Development and Trade. Both Kudrin and Gref are largely credited for Russia's economic recovery from the 1998 ruble devaluation.

However, a new player will lead the government's foreign policy. Sergei Lavrov, Russia's former UN ambassador, is now Foreign Minister replacing Igor Ivanov (who is now the head of Russia's Security Council). Lavrov has a good reputation in the West. Defense Minister Sergei Ivanov, the President's close friend who many think could be Putin's successor in 2008, kept his job.

But many former ministers only changed titles, not responsibilities. For example, former Press Minister Mikhail Lesin and former Culture Minister Mikhail Shvydkoi will take deputy posts in the new Culture and Press Ministry. Former Communications Minister Leonid Reiman and former Transportation Minister Sergei Frank will become deputies to Transportation and Communications Minister Igor Levitin.

The size of the government -- which has grown dramatically and steadily under President Putin -- is also likely to remain unchanged under the new structure. Prime Minister Fradkov, at a news conference on March 10, said: "Staff could end up being cut, but this is not the goal" of the reorganization. The aim is to make government more transparent and efficient without increasing the number of staff, he said.

The new government will consist of three tiers -- 14 ministries, 33 federal services and 26 federal agencies. The ministries will shape policies and pass regulations to supplement laws. Federal services will supervise the observance of laws and regulations. Federal agencies



Alexander Zhukov occupies Russia's sole Deputy Prime Minister post, a significant change from the six Deputy Prime Ministers of old.

will render state services and manage federal property, including state-owned enterprises.

[See the Moscow Times Government Organization Chart](#)

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Volume 1 Issue 17

A Profile of the New Russian Cabinet

In addition to Prime Minister Fradkov, Deputy Prime Minister Zhukov and Chief of Staff Kozak (see previous article for background information), Putin's Cabinet of Ministers includes:

Yuri Chaika, Justice Minister. Chaika has spent most of his career working in the prosecutor general's office of the Irkutsk region and served as Prosecutor General from 1993-1995. He has been Justice Minister since August 1999.

Andrei Fursenko, Education & Science Minister. A physicist and mathematician by training, Fursenko served as Deputy and then First Deputy Minister of Industry, Science and Technologies from 2001-2003. He assumed his current position in November 2003.

Alexei Gordeyev, Agriculture Minister. A PhD in Economics, Gordeyev was the former superintendent of Glavmosstroy and Gosagroprom. In 1998, he became First Deputy Minister of Agriculture and has been Minister of Agriculture since August 1999. From May 2000 to March 2004, Gordeyev served as Vice President of the Cabinet.

German Gref, Economic Development and Trade Minister. Gref has served in this position since soon after Putin's election in May 2000. A lawyer by training, he worked with Putin in the St. Petersburg local administration and joined the government as deputy privatization minister days after an economic crisis erupted in August 1998.

Sergei Ivanov, Defense Minister. The 51-year-old Ivanov is a close confidant of Putin and, like the president, is a former KGB intelligence officer from St. Petersburg. He has been the Defense Minister since March 2001.

Viktor Khristenko, Energy & Industry Minister. A long-time senior cabinet member and moderate liberal reformist, he was a former Deputy Prime Minister and Russia's long-standing top energy official. In 1998, he was named Vice President of the Cabinet and took on the responsibilities of First Deputy Minister of Finance.

[Return to Front Page](#)



Photo credit: Rosbalt News Agency

Alexei Kudrin, Finance Minister. Finance Minister since 1997, Kudrin is credited with presiding over a steady decline in Russia's external debt and reining in inflation. He earned his PhD in Economics from Leningrad State University (St. Petersburg) and later worked in several important positions in the St. Petersburg mayor's office. As Vice President of the Committee for Economic Development in 1991-1992, he occupied a key position during Yeltsin's shock-therapy reforms.

Sergei Lavrov, Foreign Minister. The respected Russian foreign policy veteran and U.N. envoy, Lavrov was born in 1950 and joined the foreign ministry in 1972. From 1990-1992, he directed the Department of International Organizations and Global Issues in the Ministry of Foreign Affairs. Since September 1994, he has been Russia's permanent representative to the U.N. Security Council.

Igor Levitin, Transportation and Communications Minister. Former Deputy General Director of the transportation arm of steel giant Severstaltrans, Levitin previously served as Deputy Head of the Military on the Moscow railways before his current appointment.

Rashid Nurgaliyev, Interior Minister. A Colonel-General in the military with a PhD in Economics, he has held numerous positions of authority in the KGB, FSK and FSB. In 1999, he headed the Office for Drug Trafficking Control in the Department of Economic Security and later served as Deputy Director of the Inspectorial Office of the FSB. In 2002, Nurgaliyev was appointed First Deputy Minister of the Interior.

Sergei Shoigu, Emergency Situations Minister. A Colonel-General in the military, Shoigu is co-head of United Russia, Putin's political party, and has been in his current post since January 2000.

Alexander Sokolov, Culture and Press Minister. Sokolov is the former rector of the Moscow Music Conservatory, where he completed his studies in history and theory in 1973. As Culture and Press Minister, he is committed to addressing problems of inter-ethnic relations.

Yuri Trutnev, Natural Resources Minister. A former governor of the Perm region in the Urals, Trutnev is a self-made businessman specializing in the retail sector with no apparent ties to domestic oil companies.

Mikhail Zurabov, Healthcare and Social Development Minister. Zurabov is the former Chairman of the Pension Fund of the Russian Federation, Chairman of the Board of Directors of Konverskbank, General Director of the Moscow-based insurance company MAKS and Deputy Minister of Health and Advisor to the President. Zurabov's professional training is in Engineering and Cybernetics.



Photo credit: AP/Wide World Photos

Two people who retain their posts in the newly re-organized government include: German Gref, Economic Development and Trade Minister and Alexei Kudrin, Finance Minister. New to the Russian Cabinet is Sergei Lavrov, Foreign Minister, who has served as Russia's representative on the U.N. Security Council since 1994.



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Lobbying: Russian-Style

Peter B. Necarsulmer
Chairman & CEO, The PBN Company
Reprint from an Article in the American Chamber of Commerce
Magazine

I'm often asked what's different about lobbying in the West and in Russia, having been a professional lobbyist for more than 20 years both in the United States and in Moscow. My answer surprises most people because it is my experience that there is much more in common than not.

Lobbying in the West is highly regulated and monitored. In Russia, there is no formal system, few applicable laws and no regulation. But the actual process of lobbying is quite similar, especially when it comes to the influence of money.

In both worlds, money plays an inordinate role in lobbying and elections. Jesse Unruh, the famous political leader from California and legend in American politics put it this way more than 30 years ago: "Money is the mother's milk of politics."

This is true in Moscow, just like it is in Washington DC, London or Paris. The distinction is that in the West the role of money is transparent and controlled while in Russia the influence of money is surreptitious and unregulated despite its pervasiveness.

But the use (and misuse) of money to mold government and legislative decisions is not the only way to undertake effective lobbying in Russia.

The professional approach to what's called *lobbyism* in the Russian lexicon differs greatly from the way the general public and news media understand this term and contrasts with common practice in Russia. Moreover, for those organizations proscribed from spending money in the political process by home country laws and/or internal policies, this alternative method is the only viable option.

Lobbying advances and defends the interests of companies, industries, consumers, political parties, professions and other groups. Legitimate political contributions are part of the profession – but they

[Return to Front Page](#)



Peter B. Necarsulmer, PBN Chairman and CEO, talks about the surprising similarities between Russian and Western-style lobbying.

are only one element. The heart and soul is much more complex and much more strategic.

In any culture, and in Russia especially, professional lobbying starts with establishing relationships and trust between political decision makers and advocates. Fostering good relationships ensures access, communication, mutual understanding and, ideally, the ability to work out differences through compromise. A solid government relationship also means knowing when you and your counterpart must part ways on a particular issue while remaining friendly adversaries. Burning bridges is antithetical to the practice of professional lobbying.

But money and relationships still require the art and science of communications to realize their potential in the process of passing, blocking or amending a governmental decision. Professional lobbying in Russia, as in the West, depends on the power of persuasive arguments. The party that can prove most convincingly and forcefully that their special interest is also in the nation's best interest usually wins.

Strategic communications in lobbying employs many tools. There's direct communications with government officials -- one-on-one, face-to-face meetings always have the most impact. Letters, white papers, briefing packs and emails are also useful as long as these are short, direct and based on compelling and relevant facts. The trick is making sure your materials get into the hands of your target of influence, be it a decision maker or his/her key advisers.

Professional lobbying, especially on contentious issues, involves more even than money, relationships, argumentation and arm twisting. It also requires organizing broad-based alliances for a common policy objective. Forming coalitions and activating credible grassroots support will overcome the influence of money almost any day, even in Russia. Add to that extensive media coverage and public scrutiny and you have the formula for a winning lobbying campaign.

These are the key elements of effective lobbying in Russia. Forging governmental relationships of trust and mutual respect based on policy substance and personal integrity. Matching your business's special interest with Russia's national interest. Developing and delivering persuasive, fact-based arguments. Building coalitions. And, gaining attention for your position in the news media and other public forums. This strategy works in Russia, just like it does in the West.

For foreign companies, applying this approach is particularly important. As "foreigners," multinationals need to work even harder to prove that their business interest is in fact aligned with Russia's national interest. The best way to demonstrate this is to make sure that Russian businesses, consumers and politicians not only agree with but also publicly embrace your policy objectives.

Lobbying in Russia is at an early stage reflecting the immaturity of the country's governmental decision making process. With notable exceptions, such as AmCham, the Russian Chamber of Commerce and the Union of Industrialists and Entrepreneurs, organized interest groups and associations are only now forming. Anti-corruption and

conflict of interest laws are rarely enforced while lobbying and "sunshine in government" regulations are barely on the drafting table.

That being said, lobbying of government, regulatory and legislative officials is a fact of business life here that Russian and international executives need to come to grips with, either on their own ethical and professional terms, or terms defined and too often practiced by others.

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News from PBN Worldwide

PBN Insider. PBN launched a new ad campaign featuring none other than our own Alexander Shelemekh. As the ultimate insider in Russian political circles, the new ad campaign features the strategic services and access Sasha offers our clients.

Email Sasha: alexander.shelemekh@pbnco.com

A Sahara Summit. On behalf of our client, the Coalition for Intellectual Property Rights (CIPR), PBN recently organized a three-day meeting in Dubai for CIPR corporate members and patent and trademark directors from eight countries of the region for high-level discussions on intellectual property rights protection and anti-counterfeiting measures throughout the former Soviet Union and Baltic States.

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Global Summit in Kyiv. PBN's Kyiv office provided media relations and logistical support to "Ukraine in Europe and the World" (February 20-21), an international conference of world leaders and decision-makers from the Czech Republic, Poland, Hungary, Slovakia, Romania, Turkey, Canada, Germany, Britain, France and the Baltic States.

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No Small Assignment. PBN's trade practice in Washington, D.C. continues to grow. The firm was hired to assist a coalition of U.S. shrimp-consuming industries, including restaurants, grocers and distributors, on a trade dispute involving imported shrimp.

Email Paul: paul.nathanson@pbnco.com

Oh Baby! Gerber, the world famous maker of baby food, has hired PBN's Moscow office to support its business objectives in the region.

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The "Brink" of Success. Artis Brinkmanis joins The PBN Company as CIPR/REACT IP enforcement project coordinator in the Riga office.

[Return to Front Page](#)

Name: Alexander Shelemekh
Title: Partner and Senior Vice President
Experience: Since 1993, has provided PBN's clients with strategic consulting on public and governmental policy matters in Russia and throughout the CIS. Works daily with decision makers in the RF government, Presidential Administration, State Duma and Federation Council.
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For many years, including five years in Russia, The PBN Company has provided unique value-added insights and strategic communications to companies in the aviation, industrial property, oil and gas, international trade, capital markets, pharmaceutical, financial services and consumer goods sectors.

Regional Insight. Global Impact.

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Alexander Shelemekh, PBN Senior VP and Director of Government Relations, offers clients the support of a genuine Moscow insider.

The pilot project is designed to test feasibility of providing IP enforcement assistance services in the Baltics to the trademark owners. Artis carries out market surveys, assists Customs and the Economic Police to identify counterfeit products and acts as an interface between the law enforcement agencies and nearly 150 major trademark owners that represent joint membership in CIPR and REACT.

Please visit www.cipr.org and www.snbreact.org.

Email Artis: artis.brinkmanis@pbnco.com

Romans Italy. At the end of March, PBN•Baltics VP, Romans Baumanis, will speak to corporate IP lawyers at INDICAM – the Italian anti-counterfeiting association. This follows his presentation in January to "The Lawyers Conferences" in London on "What IPR protection can companies expect in the enlarged Europe?"

For a copy of Romans' presentation: <http://www.pbnco.com/eng/news/presentations/index.php>

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MAXIMUM Exposure. The Moscow office's Maxim Kapitan recently appeared as a guest on Russian national channels TV Center and NTV. Maxim was invited as an authority on investing in mutual funds -- a subject of growing importance to many Russians.

Email Maxim: maxim.kapitan@pbnco.com

A Senior Moment. Dara Klatt, who has worked at the firm for more than two years, has been promoted to Senior Account Manager. Congratulations Dara and thanks for the good work!

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Madeleine Albright, former U.S. Secretary of State under Bill Clinton, speaks at the "Ukraine in Europe and the World" conference in Kyiv.



Artis Brinkmanis, the newest member of PBN's Riga office, smiles above an assortment of counterfeit goods that will never reach any marketplace.