

Russian Senate as a highly empowered stakeholder

A new direction for corporate GR

June 2020

On July 1, the postponed nationwide vote for amendments to the Russian Constitution will be held. The amendments, approved by the Parliament and regional legislative bodies and signed by the President into law in March, will take effect only if approved by the nationwide vote (*which is largely seen as a formality*).

The amendments introduce major changes in the power structuring system in Russia, important in the context of upcoming Parliamentary elections in 2021 and Presidential elections in 2024.

The most significant and high-profile of the forthcoming changes is the so-called “zeroing out” of Putin's presidential terms, allowing him to run for the Presidency for two additional terms.

However, the so-called “2024 Dilemma” - whether Putin will run for the Presidency again or moves to another position in the power system while retaining control over key decision-making – will not be finally resolved by these amendments.

On the one hand, the amended Constitution clears the way for Putin to run for re-election in 2024 and potentially again in 2030. On the other, taking into account the age factor and other reasons, alternative scenarios exist as well. According to these, Putin could move to another position in the power system while retaining control over key decision-making.

The probability of these alternative scenarios could be increased by a major or enduring crisis, which may force Putin to look to distance himself from operational decision-making and the responsibility for its impact, while retaining control from a less exposed position. Possible alternative roles for Putin could include Chairmanships in the Federation Council, State Council or Security Council.



The most immediate goal of “zeroing out” Putin’s terms, however, could be to put an end to his image of a “lame duck” President, which has gradually taken hold in the establishment and risked destabilizing the entire system of governance.

Any of these “alternative scenarios” would trigger a significant re-distribution of power and influence between the key governing institutions – the Presidential Administration, the Government, two Chambers of the Parliament (*State Duma and the Federation Council*), as well as the State Council and Security Council.

Meanwhile, the strengthening of some of these institutions – most notably the Federation Council (*upper Chamber of the Parliament*) is directly indicated from the constitutional amendments and is not conditional on a potential move by Putin to the office of its Chairman. The most immediate trend, which could be implemented before 2024, is the transition of Putin’s inner circle to the Federation Council, enabling it to significantly increase its status and role in decision-making.

For professionals interacting with the Government structure, these changes could be game-changing, requiring a major reorganisation of the model of interaction with public authorities established in Russia since the 2000s. While the current model focuses on working with the executive branch, it would soon become necessary to concentrate more resource to work with other (*currently viewed as peripheral*) institutions (*such as the Federation Council and the State Duma*).

This memo therefore focuses on the potential impact of this “alternative scenario” on corporate government relations. From the abovementioned options, we focus on Putin’s potential transition to the office of the Chairman of the Federation Council, a scenario that would require the most radical re-formatting of corporate GR. At the same time, a large part of our conclusions and recommendations would remain relevant even in the case of other scenarios, given an expected growth of the Federation Council’s influence of the “post-amendments” political system.

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1. Why might Putin move to the Federation Council?

While there is a broad range of scenarios, in our assessment Putin transitioning to the State Council, the State Duma, or the Security Council all seem less likely for different reasons (*possibly creating a diarchy in case of State Council, narrow competencies of the Security Council or exclusively operational powers of State Duma*). Instead, the Federation Council seems a more likely destination if he does choose to change positions.

What is the Federation Council and what is its role in the current political system?

As the upper chamber of the Russian Parliament, the Federation Council represents the interests of the regions at the Federal level. Every region sends two representatives to the Federation Council - one from the Governor and one from the region's legislative body. Additionally, from 2014 the President has had the right to appoint 17 Federation Council members (*Senators*) directly - although Putin has not used these powers so far.

Formally, the Chairman of the Federation Council is the third most important person in Russia's governance system after the President and Prime Minister (*although this was not so informally over the whole period of its existence*).

While being largely seen as a place for retirement or even "honourable exile" for top level officials and the regional establishment, and not playing a significant role in policy-making, the Federation Council has broad constitutional authorities, including in foreign policy, national security and control over the law enforcement system, which are the top priorities for Putin.

The amendments to the Constitution considerably increase these powers and lay a foundation for the transformation of the Federation Council into a far more influential body in the "post amendments" political system.

A theoretical Putin move to the Federation Council could therefore be driven by the following factors:

- Its "compromise" status – the Federation Council is already a part of the system of power, it is not a "super-structure" like the State Council;
- Its universal powers – the Federation Council addresses domestic and foreign policy, law enforcement and national security (*issues of most interest to Putin*);
- Its potential political leverage – the Federation Council has a potentially wide range of leverage mechanisms - *vetoing the legislation, being involved in appointments of "Presidential vertical" ministers, exercising control over the law enforcement and judicial system, etc.* At the same time, it helps avoid direct responsibility for decisions.



- The status of “Senator for life” and immunity introduced by the constitutional amendments (*the importance of this status should not be under-estimated*).

2. What leverage would the Federation Council give Putin?

In the context described above, it is important that the most significant changes to the Constitution, in terms of powers and functions of state bodies, are those related to the powers of **the President and the Federation Council**.

Should the amendments be adopted:

- **Putin becomes a Senator for life.** Deputy Chairman of the Security Council Dmitry Medvedev is granted the same status as a former President of Russia;
- Putin also appoints up to 30 representatives of the Russian Federation to the Federation Council (now 17) for a six-year term. **Seven of them may be appointed for life** (*there are no Senators for life in the current Constitution*).

Putin's team in the Federation Council

Thus, Putin will be able to directly control about 15% of the Senators (a “golden share” or “areopagus”), as well as a significant part of Senators appointed to the Federation Council just before his departure from the post (*either in 2024 or earlier*).

In these circumstances one possible scenario is the relocation of Putin's entourage to the Federation Council (*Dmitry Medvedev, Foreign Minister Sergey Lavrov, Defence Minister Sergey Shoigu, Secretary of Security Council Nikolay Patrushev, heads of key state corporations - Igor Sechin, Aleksey Miller, etc.*).

Along with forming his own group in the Federation Council, Putin could become the Chairman of the upper house.

Expanding the powers of the Federation Council

According to the constitutional amendments, a future President will have to work more closely with the Federation Council on key policy issues. Moreover, the approval of the Federation Council will be required for presidential appointments to key positions in state bodies.

The Federation Council is going to have certain control over:

- The executive bodies subordinated to the President (*appointment of Ministers and other officials responsible for foreign policy, national defense and security and law enforcement*);

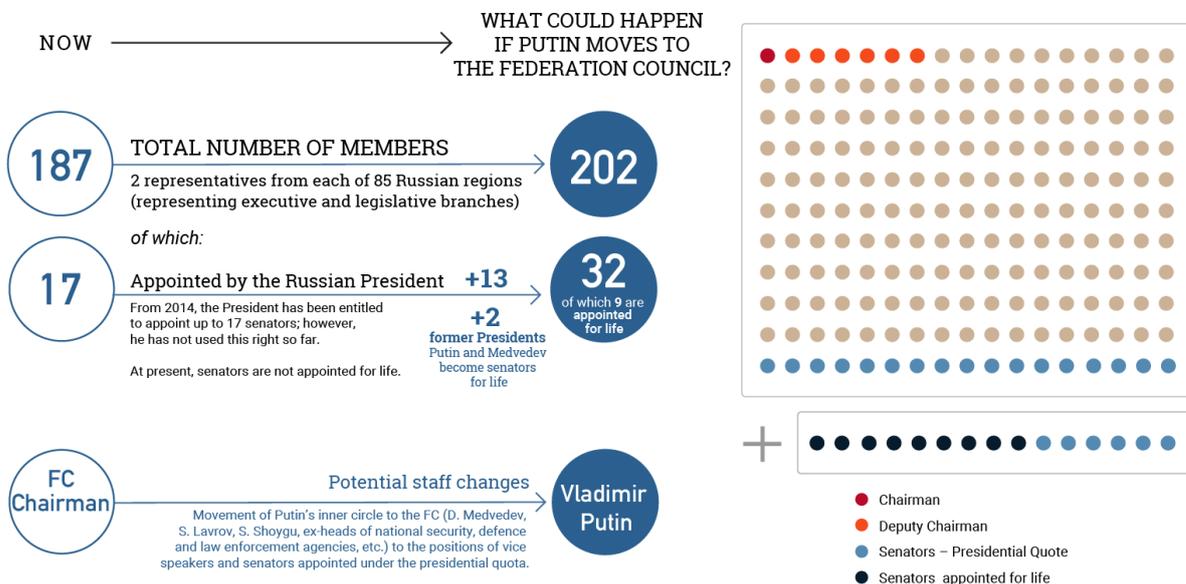
- The judicial branch (*heads of the Constitutional and Supreme Courts, heads and judges of federal courts*);
- The law enforcement system (*the Prosecutor General, his deputies and prosecutors in the regions*);
- Supervision over the Government's economic bloc (*appointment of the Chairman of the Accounts Chamber and half of its auditors*).

Control over the judiciary and the regional prosecutors could also give the Federation Council leverage over the Governors and regional governments.

Additionally, the Federation Council also has important functions in foreign affairs and representing Russia in the international arena.

Thus, the implementation of this scenario will significantly change the position of the Federation Council, which was previously seen as a place of "honourable exile" for former Governors, Ministers and other important state administrators.

FEDERATION COUNCIL COMPOSITION





3. How could a potential Putin transition to the Federation Council be organised?

If particular machinery for its implementation is considered, Putin's transition to the Federation Council could be organised in a manner similar to that used in 2008 when he moved to the position of Prime Minister. That move allowed Putin to keep political leverage at the time of Medvedev's Presidency until the next presidential election in 2012.

Based on the experience of 2008, we believe that the approval of the constitutional amendments could start the following organisational and staff changes in the Federation Council, relevant in terms of corporate government relations reconfiguration:

- **Creation of the "Alternative Government – Presidential Administration" within the Federation Council:**
 - Expanding the powers of Deputy Chairs (*their positions could become equivalent to Deputy Prime Ministers of the Government or Aides to the President in the Presidential Administration*), increasing their number and appointing people close to Putin to these offices. A kind of "Government Presidium" that will include Deputy Chairpersons could be created as a result;
 - Giving more powers to Deputy Chairs to interact with the members of the House Council (*possible equivalent to the Cabinet of Ministers*) and the Federation Council committees;
 - Giving new powers to the House Council and increasing the number of its members, giving them powers to interact with committees and commissions of the Federation Council;
 - In case Putin becomes Chairman of the Federation Council, the measures mentioned above will help him avoid routine technical work and allow to concentrate on strategic issues;
 - Additional functionality of the committees (*change of committee regulations*) based on their new constitutional powers. The committees may potentially act as an alternative to the ministries (*duplicate them*);
 - Transformation of commissions and councils under the Federation Council into equivalents of federal agencies and services aimed at solving certain issues concerning interaction with the President, Government, Ministries;
 - Expanding the number of commissions and councils, enhancing their role as a platform for interaction with external actors - businesses, non-profit sector, etc;
 - Changing the status of aides to Senators, etc.
- **Reconfiguration of the Federation Council Staff:**
 - Making the Federation Council staff closer to the President, changing the regulations (the staff works for Putin personally rather than for the Federation Council as a state body);



- A considerable strengthening of the staff's law-making functions and its role in coordinating economic policy (*creating equivalents for State-legal and Expert Directorates of the Presidential Administration*);
 - Creating new structural units in the staff (*strengthening the Press Service, protocol preparation of public speeches and other units directly supporting the work of the Federation Council Chairman*);
 - Increasing the number of the Chairman's Advisors (*responsible for the areas of activity most important for Putin or narrower specific issues*) with broad informal status;
 - Reorganisation of the Federation Council Secretariats to support the activities of Deputy Chairpersons and Members of the House Council (*equivalent to the Secretariats of Deputy Prime Ministers and Ministers*);
 - Transferring powers for control (assessment) of the performance of Governors and municipalities to the Federation Council.
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- **Transforming the Federation Council into an active subject of legislative initiative** (*along with the Government*) on strategic economic issues, social policy and foreign relations. At present, the role of the Federation Council in the law-making process is rather limited. The increase of the Federation Council's role in the law-making activities may manifest itself in the following ways:
 - Expanding the use of the power to veto federal legislation adopted by the State Duma. Currently, the veto power is used very sporadically and not for legislation of high political or economic importance. While the Federation Council's political weight will increase, the veto power could be used more systematically;
 - More systemic use of the power to introduce legislation by Senators. Currently, very few Senators are active in introducing legislation, mostly due to their close relationship with the Presidential Administration and leading positions in the United Russia party. The transformed Federation Council could become more active in introducing legislation, and in some areas (*e.g. foreign policy and national security*) it could become a driver of the legislative agenda;
 - Strengthening the role of the Federation Council Committees, Interim Commissions and advisory bodies under the Council. Currently, some of them are actually "sleeping" and the activity of those working is driven by 1-2 Senators. Once the role of the Federation Council increases, they could become more important, expert platforms involved in law-making activities.

TODAY

LIKELY SCENARIO UNDER A PUTIN-LED FC

Senior officials

Federation Council Chairperson (the Secretariat)

Bodies under the Chairperson

- Council for Interactions with Civil Society Institutions
- Science Advisory Council
- Integration Club

First Deputy Chairman (First Deputy Chairman's Secretariat)

Deputy Chairs (five)

Deputy Chairs Secretariats

Bodies under the Chairperson could be transformed into an extended personal secretariat of Putin.

Councils, similar to the FC Executive Office, would mostly be focused on the Chairperson, rather than on the Federation Council as an institution

Deputy Chairs to be transformed into an analogue of Deputy Prime Ministers of the Government: granted additional powers to interact with FC committees and commissions and supervise certain areas of domestic and foreign policy.

Council of the Chamber (standing body)

Comprises the Chairperson, Deputy Chairs, and Heads of Committees

Would act as the Government / Government's Presidium.

Council members ("ministers") granted additional powers and functions in terms of interactions with the committees and commissions.

Consultative bodies the Federation Council

- Council for Digital Economy Development
- Council for Development of Social Innovations in the Regions
- Council for Regional Healthcare
- Council for Regional Gasification
- Council for Local Governance
- Council for Arctic & Antarctic
- Council for Housing Construction and Facilitation of Housing and Utilities Complex Development
- Council for Inter-Ethnic Relations and Interactions with Religious Associations
- Council for Social Protection of the Military, Employees of Law Enforcement Agencies and their family members
- Council for Financial Market Development
- Council for Agro-Industrial Complex and Environmental Management
- Council for Disabled
- Council for Intellectual Property
- Council for Far East Development

Transformed into an analogue of advisory boards under the President (for human rights, for digital economy, for inter-ethnic relations, etc.)

The number, composition and functions of councils will be extended in proportion to the increase in the FC's weight and competence.

Council authority, similar to the FC Executive Office, would mostly be in the hands of the FC Executive.

TODAY

LIKELY SCENARIO UNDER A PUTIN-LED FC

Federation Council Executive Office

- Head (Secretariat of the Head of the Executive Office)
- First Deputy Head
- Deputy Heads (three)
- Secretariats of the committees (ten)
- Departments of the Executive Office
 - Legal Department
 - Analytics Department
 - Civil Service and HR Department
 - Administrative Department
 - Information and Media Relations Department (press office)
 - Information Technology and Document Management Department
 - International Relations Department
 - Organizational Support Department
 - Financial and Economic Department
 - Department of Internal Financial Audit of the Executive Office

The Executive Office is brought closer to the FC Executive: the Office works for Putin, rather than for the Federation Council as a whole.

Creation / refocusing of Executive Office's units towards the Speaker's figure (press office, administrative department, etc.).

Elements of the Executive Office could be changed to mirror the structure of the Presidential Administration, to which Putin is accustomed.

Federation Council Committees

- Committee for Constitutional Legislation and State-Building
- Committee for Federal Structure, Regional Policy, Local Governance and Northern Affairs
- Committee for Defense and Security
- Committee for Foreign Affairs
- Committee for Budget and Financial Markets
- Committee for Economic Policy
- Committee Agrarian and Food Policy and Environmental Management
- Committee for Social Policy
- Committee for Science, Education and Culture
- Committee for the Rules of Procedure and Parliamentary Governance

The Committees could embrace the functionality of "ministries". The number of committees and their functions in terms of interactions with other authorities (Presidential Administration, Government, State Duma) would be extended.

The Committees could play a key role in terms of assessing the quality of work of the Government and Governors (approval of appointments and dismissals).

Federation Council Commissions

- Commission for Control over Reliability of Information on Income, Property and Property Obligations Submitted by Federation Council Members
- Interim Commission for Protection of State Sovereignty and Prevention of Foreign Interference in Russia's Domestic Affairs
- Interim Commission for Legislative Support of Development of the Technical and Technological Base for the Russia's Agro-Industrial Complex
- Interim Commission for Information Policy and Media Relations
- Interim Commission for Improvement of Legal Regulation in the Field of Government Regulation (Supervision) and Municipal Control
- Interim Commission for Legislative Regulation of Cyber Security, Digital Technology Development and Use
- Interim Commission for Parliamentary Control Over the Progress in Implementing the Comprehensive Plan for Modernisation and Expansion of Trunk Infrastructure Until 2024 in Terms of Transportation Infrastructure

Commissions may be transformed into an analogue of agencies and subordinate organizations in charge of shaping the policy and interactions with their counterparts at the Government in certain areas (antimonopoly policy, technical regulation, consumer supervision, etc.).

4. Recommendations for corporate government relations: how to work with any future Putin-led Federation Council?

The preparation of the changes mentioned above could take from six months to several years. Alternatively, they could be rapidly implemented (*for example, the reshaping of the Government for Putin in 2008 took only two months*).

Therefore, if this scenario occurs and Putin moves to the Federation Council, corporate interaction with the Government will need to adapt to work with the renewed Federation Council.

In this scenario, we would recommend the following actions:

- To invest in understanding the rules of procedure and especially the legislative role of the renewed Federation Council (*the use of veto that may become more common*) in the following possible ways:
 - By hiring or securing counsel from specialists who previously worked in the Federation Council or State Duma staff;
 - By revising the budget of GR functions due to the above-mentioned features of the Federation Council and the need for frequent business trips to the regions to build relationship with the Senators.

HOW THE CORPORATE WORLD WOULD HAVE TO INTERACT WITH A PUTIN-LED FEDERATION COUNCIL (FC)

<p>1 Invest in understanding the rules of procedures and the legislative role of the renewed FC (the practice of vetoing that may be applied more often)</p>	 Engage with or hire specialists who previously worked in the FC or the State Duma.  Re-prioritise the GR function considering FC specifics and the need for frequent business trips to regions: <ul style="list-style-type: none"> • Greater FC engagement will require building up relations with key Senators. Working in the regions they represent is a channel for such networking; • The format of "field meetings" with the FC may be preserved.
<p>2 Establish contacts with or join the FC committees, working groups and interim commissions</p>	 Efficient structuring of relations with Senators, their aides, FC Executive Office members and target groups invited to such events.  Business representatives may act as experts for working groups established under committees and Interim commissions.
<p>3 Discuss relevant issues with target committees on a regular basis</p>	 Exchanging opinions, information, expertise – similar to interactions with relevant government agencies.  Requires communication with Senators and the FC Executive Office.



- Identifying the Federation Council Committees, Interim Commissions and advisory bodies (Councils) to be a priority for the Company, analysing their structure, composition, functionality and expected changes in their work as the constitutional amendments take effect.
- Identifying relevant “entry points” to the Federation Council by analysing the sphere of interest, background and connections of the Senators to be of interest for the Company, regardless of their formal involvement in the work of particular Committees of Commissions (this is particularly relevant for “sleeping” Commissions and Committees).
 - Due to the likely increase in Senators' political weight, it would be necessary to build relations with Senators that may be important for a company or economic sector. One of the ways of establishing such relations is to work directly with the regions the Senators represent;
 - The Federation Council, its Committees and advisory bodies under the Council regularly hold meetings in the regions. Some of the Committees have more than half of their meetings held outside of Moscow. This should also be taken into account in building relationships with the senators and their assistants and could require additional budgeting for business travel and more regular visits to the relevant regions.
- Consider participating in the work of the Federation Council committees, working groups and interim commissions at this stage:
 - This will allow to set up relations with Senators, their assistants, members of the Federation Council Executive Office and target groups that are invited to these events more effectively;
 - Business representatives can offer their expertise which is required in the work of councils and working groups that are created under committees and interim commissions.

Regular interaction with the relevant committees will also be required (exchange of views, information, expertise, etc. – as in the case with other Government agencies most important for a company), including communication with Senators and the Federation Council staff.

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In summary, the forthcoming constitutional changes represent what promises to be the first round of moves in a major power shift in Russia, laying the foundations either for a continued Putin Presidency up to 2036, or his continued dominance of Russian politics from a different role, of which the Federation Council chairmanship seems the most likely. Regardless of Putin’s title, though, the Federation Council is clearly set to becoming increasingly influential.



As a result, how the corporate sector interacts with the Government will need to change, with GR professionals pivoting to ensure greater understanding of and interaction with the Federation Council and its stakeholders. While the zeroing of Putin's Presidential terms dominates in the agenda, the importance of these additional changes, and their far-reaching likely consequences, should not be overlooked.

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For further information and advice please contact russia@kesarev.com

About Kesarev

Kesarev is the largest independent consultancy in Russia, the post-Soviet region, Central and Eastern Europe, Turkey and Israel, covering 25 countries and specializing in government relations services, risk and corporate reputation management.

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