

The Nightly Business Report
KGB Democracy
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KGB Democracy. That's how Russia looked when I visited recently. President Putin has amassed great power, through his own re-election and his party's commanding control of the Duma. Now in the wake of the recent terrorism, he aims to stop direct election of regional governors and Duma members.

He's also tightening state control over the energy sector. Gazprom, the huge gas monopoly will merge with Rosneft, the state-owned oil group. The result will be a powerful company with just over 50% state ownership. To sweeten the deal, Russia will lift restrictions on foreign investment. In other words, Putin welcomes foreign capital but with state control.

As global demand for oil and gas grows mightily, Russia emerges as the second largest exporter of oil. Putin seems to think this puts Russia in the catbird seat, giving it a big global bargaining chip. He also has calculated that despite the state's tightened grip, foreign investors will come anyway because they want access to those energy reserves. So far he's right. But there's a risk. In the future, will he change the rules and nationalize that investment? Will Russia use its energy clout to get something it wants from us?

There are no answers. But the outlook is disturbing and bears close watching.

I'm Barbara Hackman Franklin.